

COMPREHENSIVE
ANNUAL FINANCIAL REPORT
CITY OF ADRIAN, MICHIGAN

DEPARTMENT OF FINANCE

For Fiscal Year Ended June 30, 2007

Prepared by the Finance Department

JEFFREY C. PARDEE, C.P.F.O., Director of Finance

CINDY L. PRUE, Assistant Director of Finance

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name CITY OF ADRIAN, MICHIGAN	County LENAWEE
Fiscal Year End JUNE 30, 2007	Opinion Date AUGUST 7, 2007	Date Audit Report Submitted to State NOVEMBER 9, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

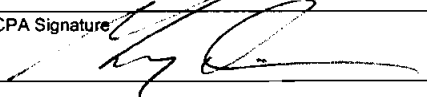
YES
2

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input checked="" type="checkbox"/>	SINGLE AUDIT REPORTS (INCLUDED IN ANNUAL FINANCIAL REPORT)	
Certified Public Accountant (Firm Name) ROBERTSON, EATON & OWEN, P.C.		Telephone Number (517) 265-6154	
Street Address 121 NORTH MAIN STREET		City ADRIAN	State MI
Zip 49221			
Authorizing CPA Signature 	Printed Name GARY OWEN	License Number 1101008646	

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COMPREHENSIVE ANNUAL FINANCIAL STATEMENT

Transmittal Letter

October 16, 2007

To the Citizens of the CITY OF ADRIAN, MICHIGAN,
Honorable Mayor and Members of the City Commission:

Formal Transmittal of the Comprehensive Annual Financial Report (CAFR)

Michigan State law requires that all general-purpose local governments publish within six months of the close of each fiscal year a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the comprehensive annual financial report of the CITY OF ADRIAN for the fiscal year ended June 30, 2007.

In June 1999, the Governmental Accounting Standards Board (GASB) adopted Statement Number 34, *Basic Financial Statements – and Management’s Discussion and Analysis – For State and Local Governments*. This accounting pronouncement has had a substantial impact on both the format and content of the information included in this report, the fourth Comprehensive Annual Financial Report (CAFR) prepared under the requirements of the new reporting model. Tom Allen, GASB Chairman stated, “This is the most significant change to occur in the history of governmental financial reporting.”

The new financial reporting model requires general-purpose governments to present the following basic financial statements and Required Supplementary Information (RSI) in order for the financial statements to be in conformance with generally accepted accounting principles (GAAP):

- Management’s Discussion and Analysis (MD&A)
- Government-wide Financial Statements
- Fund Financial Statements
- Notes to the Financial Statements
- Required Supplementary Information (RSI)
- In addition, the State of Michigan requires that individual fund columns be presented for all funds and component units.

The new financial statement includes a discussion of the City’s financial condition and outlook. The new *Management Discussion and Analysis* (MD&A) precedes the full-accrual “*Government-wide Financial Statements*” that are intended to show whether today’s taxpayers have

paid the full cost of the services received. These full-accrual statements are followed by a revised version of the financial statements previously reported, *"Fund Financial Statements"*, which report governmental activities on the "modified accrual" basis of accounting, followed by *Footnote Disclosures* and *Required Supplementary Information* (RSI).

The financial statements include several tiers of information, some of which are familiar and some of which are new. The MD&A, a narrative discussion preceding the government-wide financial statements, will analyze:

- The City's financial performance for the year
- A comparison of the current year to the prior year
- A discussion of whether the City's financial position has improved or deteriorated during the year
- Significant changes in individual funds
- Significant budget variances
- A brief explanation of capital asset and long term debt activity
- Any likely future significant changes in financial position or operating results.

The second tier of information includes the two new full-accrual "government-wide" financial statements prepared using the economic resources measurement focus; the **Statement of Net Assets** and the **Statement of Activities**. These government-wide financial statements now include all capital assets, including infrastructure, as well as the cost of asset purchases over the years they are in service (i.e., depreciation). These statements also include all long-term liabilities, including employee compensated absences. Compensated absences are recognized as expenses in the year that the employees' services are rendered, since this is when the employees earn them. For example, governments are now required to charge the cost of employee benefits, including sick and vacation pay, over the years that employees are rendering services (rather than decades later, when those benefits are typically paid).

The financial statements maintain some familiarity in the third tier, the "Fund" financial statements. The traditional modified accrual reporting of individual governmental funds has been retained. The GASB believes that this is the preferable method to show budgetary accountability. Significant individual funds (referred to as "Major" funds) are presented separately on the statements preceding the footnotes. The fund-based statements are separated into three sections:

- governmental funds
- proprietary funds (e.g., water and waste water funds), and
- fiduciary funds (e.g., Agency Fund).

The government-wide and fund financial statements continue to require various note disclosures to supplement the basic financial statements.

Required Supplementary Information (RSI), presented after the notes to the financial statements, include budgetary comparison schedules for the debt service and non-major special revenue funds (e.g., Community Development Fund). Budget to actual comparisons include the original budget, as well as the final amended budget.

The Comprehensive Annual Financial Report consists of management's representations concerning the finances of the City of Adrian. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the City of Adrian has established a comprehensive internal control framework that is designed to both protect the government's assets from loss, theft or misuse and to compile sufficient reliable information for the preparation of the City of Adrian's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City of Adrian's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City of Adrian's financial statements have been audited by Robertson, Eaton & Owen, P.C., a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Adrian for the fiscal year ended June 30, 2007, are free from material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Adrian's financial statements for the fiscal year ended June 30, 2007, are fairly presented, as the first component of the financial section of this report.

The independent audit of the financial statements of the City of Adrian was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but

also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. The Single Audit Report is incorporated into the Comprehensive Annual Report.

GAAP require that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This Letter of Transmittal is designed to complement MD&A and should be read in conjunction with it. The City of Adrian's MD&A can be found immediately following the report of the independent auditors.

Profile of the Government

The City of Adrian, founded in 1825, incorporated in 1853 and re-chartered in 1957, is the county seat of Lenawee County, one of the richest agricultural counties in Michigan. The population of the City of Adrian in 2000 was 22,215, with moderate growth in population since then. Adrian is located 33 miles northwest of Toledo, Ohio, 37 miles south of Ann Arbor and 59 miles southwest of Detroit, and is served by Michigan highways US223, M52 and M34. The City of Adrian is empowered to levy a property tax on both real and personal properties located within its boundaries. The City is also empowered by state statute to extend its corporate limits by annexation, which occurs periodically when deemed appropriate by the City Commission, in accordance with the rules and regulations of the State Boundary Commission. In recent years the City boundaries have expanded through annexation by 1.2 square miles, from 6.9 square miles to 8.1 square miles.

The City of Adrian has operated under the commission-administrator form of government since 1957. Policy-making and legislative authority are vested in a governing commission consisting of the mayor and six other members elected at-large on a non-partisan basis. The City Commission is responsible, among other things, for passing ordinances, adopting the budget, appointing committees, and hiring both the government's Administrator, Attorney, Assessor and City Clerk. The City Administrator is responsible for carrying out the policies and ordinances of the City Commission, for overseeing the day-to-day operations of the government, and for appointing the heads of the various departments. Commission members serve four-year staggered terms, with three Commission members elected every two years. The mayor is elected to serve a two-year term.

The City of Adrian provides a full range of services, including police and fire protection, sanitation services, construction and maintenance of highways, streets and other infrastructure, Dial-A-Ride transportation and Community Development services, as well as recreational activities and cultural events. In addition to general government activities, the City Commission is financially responsible for the activities of the water and sewer systems, the City of Adrian Building Authority, a blended component unit; therefore, its activities are included as an integral part of the reporting entity. Also included in the City's financial report are the Downtown Development Authority (DDA-TIF) and the Local Development Finance Authority (LDFA), as discreetly presented component units. However, the Adrian Board of Education and the Bixby Medical Center have not met the established criteria for inclusion in the reporting entity and, accordingly, are excluded from the financial report.

FACTORS AFFECTING FINANCIAL AND ECONOMIC CONDITION

The annual budget serves as the foundation for the City of Adrian's financial planning and control. All departments of the City government are required to submit requests for appropriation to the City's Chief Fiscal Officer on or before the last Tuesday in February each year. The City Administrator uses these requests as the starting point for developing a proposed budget. The Recommended Budget is presented to the City Commission for consideration at the first Commission Meeting in April. The Commission is required to hold a public hearing on the proposed budget and to adopt a final budget by no later than the Commission's second meeting in May. The appropriated budget is prepared by fund (e.g., General Fund), department (e.g., Parks and Recreation) and activity (e.g., Swimming Pool). Transfers of appropriations within and between departments require the special approval of the City Commission in the form of a budget amendment. Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. For the General Fund, Major and Local Street Funds, these comparisons are provided on Pages 57-61 as part of the basic financial statements for the governmental funds. For governmental funds, other than the general fund, with appropriated annual budgets, this comparison is presented in the governmental fund subsection of this report, which starts on Page 98.

On the November, 2003 General Election Ballot, there was a question regarding the detachment of City of Adrian properties to the Charter Township of Adrian, which ultimately failed. The taxable value of the subject properties approximates \$5.1 million and generate about

\$69,000 in additional tax revenue. Since these properties were recently annexed by the City of Adrian and subsequently called into question, they remained on the Charter Township of Adrian assessment and tax rolls until the issue was resolved by a majority vote reaffirming the previous annexation. The taxable value of the subject properties were transferred from the Township to the City, beginning with the 2004 Assessment Roll and reflected in the FY2004-05 and subsequent Tax Rolls.

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the City of Adrian operates.

ECONOMIC OUTLOOK

National Economy – Federal Reserve Chairman Ben Bernanke is facing his first serious challenge since taking the helm from Alan Greenspan, eighteen months ago. To be sure, Greenspan only had three months to prepare for his first test, the jolting stock market crash in October 1987 that invoked memories of the 1929 collapse and its legacy of the Great Depression. Greenspan's swift response — flooding banks with liquidity and slashing interest rates — promptly restored confidence among investors; stocks recovered quickly and the economy emerged unscathed from the incident. By all accounts, the new Fed chairman had acquitted himself admirably, jump-starting an 18-year regime that earned accolades from all quarters. The current test may not be as dramatic as the '87 crash, but its handling will require as much dexterity and good judgment.

Unlike the earlier episode, which came as a surprise, the current turmoil in the financial markets has been brewing for some time. And whereas the market crash twenty years ago was largely a financial event, this one has its roots firmly planted in the real economy, notably a housing bubble that spawned a credit pyramid stretching far and wide. As a result, the collapse of the housing bubble now underway is generating a credit crisis that could amplify its potential impact on the economy.

In retrospect, the economy's vulnerability to the escalating turmoil in the credit markets should come as no surprise. Never before has an economic expansion relied so heavily on borrowing as this one. Since the end of the 2001 recession, total debt outstanding has increased considerably faster than the overall economy, lifting the ratio of debt to GDP from 283 percent to 339 percent at the end of the first quarter -- a record high by far.

Not surprisingly, consumers have been the heaviest borrowers during the expansion, increasing their outstanding debt by an average of 11 percent a year. That's the steepest increase over a five-year period since the early 1980s, when higher inflation was pushing up nominal wages and lowering debt burdens in real terms. But the increase since 2001 has far exceeded the increase in incomes, lifting the debt to income ratio of households to all-time highs both in nominal and real terms. Indeed, the debt to income ratio stood at 136 percent at the end of the first quarter, up from 100 percent at the start of the expansion. That 36 percent increase in little more than five years is about as much debt as households had accumulated over the previous forty years.

As a result, households are diverting nearly 15 percent of disposable incomes to debt servicing, also an all-time high. By itself, this lofty debt-servicing ratio is not particularly worrisome, as rising income over the years has enabled more households to take on larger amounts of debt obligations, if only because they are spending a smaller fraction of their paychecks on such basic necessities as food. Also, some portion of the increase in debt-servicing ratios is an artifact of rising homeownership rates; with fewer families renting, the dollars previously earmarked for rental payments are now being diverted to mortgage payments. But like other trends that went too far, this one traveled well beyond reasonable limits in recent years.

Lower income families have accounted for a larger percentage of borrowing in recent years, reflecting, in part, the rapid increase in subprime lending. It is those loans, of course, that constitute the lightning rod for the current maelstrom in the financial markets. Simply put, the growing volume of mortgage defaults and foreclosures is decimating the portfolios of institutional investors with a heavy exposure to mortgage-backed securities, particularly of the subprime variety.

Underscoring this disturbing trend is the outsized increase in mortgage debt over the past three years. Since the end of 2004, mortgage borrowing, including home equity loans, has accounted for more than 85 percent of the huge \$2.35 trillion increase in total household borrowing. That heavy reliance on mortgage loans has lifted the share of mortgage debt on household balance sheets to a record 76 percent of all loans, up from under 70 percent just five years ago.

No doubt, households in all income categories participated in the mortgage-borrowing frenzy, including high wage earners trading up into more expensive homes. But there is also little question that the housing boom has been fueled by first-time homebuyers (hence, the increase in homeownership rates) who have been able to get mortgages that they might not have qualified for in the past. Lured by the astonishing easing of lending standards, including 100 percent financing, low initial or

“teaser” rates and “no-doc” loans that do not require income verification, these are the very borrowers who have gotten in over their heads and stand at the center of the meltdown in the mortgage-backed securities market.

Among the aftershocks caused by the surge in subprime defaults is that it has sparked an increase in risk aversion among investors, resulting in sharp increases in interest rates on all but Treasury securities and restricting the availability of credit to households and businesses with less than pristine credit ratings.

To be sure, the problems in the credit markets did not happen out of thin air. In the case of the mortgage market, both lenders and borrowers believed that repayments could always be made as long as property values were appreciating. The underlying premise was that over time the collateral behind the mortgage would be worth more than the loan balance, enabling borrowers to sell their homes if necessary to repay their debts or refinance at favorable rates. Simply put, the credit market bubble was tied to the housing bubble; once the latter deflated and home values started to decline, the ground was pulled out from under the mortgage-securities market, setting in motion the debilitating forces that have spread to the broader credit market.

While the housing collapse has been largely responsible for the credit-market turmoil, the narrowing of the mortgage credit spigot now underway is clearly deepening the housing downturn, which is already more protracted and severe than thought a few months ago. That, in turn, increases the risk that growth will falter over the remainder of the year, making the need for some rate relief by the Federal Reserve more likely. The financial markets have priced in several rate cuts in coming months, and many analysts fear that if the Fed delays action, the economy could well slide into a recession.

Clearly, if the turmoil in the financial markets escalates and chokes off lending to even credit-worthy borrowers, the odds of a recession would increase significantly. At this juncture, it is too early to tell how long the crisis will last or how severe the problems are.

If the Fed’s injection of liquidity into the banking system has the desired effect of calming the markets and, more important, keeps credit flowing to households and businesses, the need for more drastic measures may be avoided for a while. Ideally, the Fed would like to buy time to assess the impact that the market turmoil is having on the economy. So far, consumers still seem to be spending and corporate CEOs remain relatively optimistic. But since the subprime imbroglio surfaced at the start of August, mortgage lenders have announced more than 20

thousand job cuts, and the deepening housing downturn will lead to a new wave of layoffs in the construction industry. Chances are, the Fed will cut rates again, if only to provide some insurance against a further deterioration in the job market.

State Economy – Michigan's image, already in tatters from the troubles caused by its shrinking manufacturing base and a budget impasse that wasn't resolved until a temporary government shutdown, isn't going to recover any time soon. Domestic automakers continue to struggle to find a mix of products and cost cutting that will enable them to do better in the North American market. Michigan remains more dependent than most states on the Detroit's Three financial health. A quick look at some of Michigan's economic indicators reveals:

- Michigan's August unemployment rate was 7.4 percent, well above the national average 4.6 percent.
- Michigan ranks among the top ten states on home foreclosures.
- Employment in the state's transportation sector is expected to drop more than 12 percent in 2007 and more than 11 percent in 2008, according to the House Fiscal Agency.
- Michigan real disposable income is expected to fall 0.5 percent in 2007, while national real disposable income is expected to grow 2.7 percent, according to the House Fiscal Agency.

Downsizing in the domestic auto industry continues; overall the state has lost nearly a third of the 904,000 manufacturing jobs it had in mid-2000, adding to the total 413,000 jobs lost overall, a drop of nearly 9 percent. Economists with the State and at the University of Michigan expect job losses to continue through late 2008, with nearly 44,800 jobs disappearing next year, most of them in manufacturing.

Auto and construction job cuts pushed Michigan's seasonally adjusted unemployment rate up to 7.4 percent in August. The number of jobs in the state fell by 28,000, while unemployment rose by 12,000. In all, the state had a civilian workforce of 5.004 million, with 4.632 million people working and 372,000 unemployed. Michigan's August jobless rate was the highest monthly rate since September, 1993. Michigan's unemployment continues to lead the national rate, which held steady at 4.6 percent. The job-loss streak, now in its eighth year, is the longest since the Great Depression.

Even with this bleak outlook, Standard & Poor's rating agency recently wrote that Michigan was making progress, having resolved its budget crisis for the time being. Furthermore, it said the state benefited from the quick resolution of contract talks between General Motors Corp. and the United Auto Workers (UAW), with a two-day national strike causing barely a ripple in the national economy. Although Michigan has lost 34

percent of its auto jobs in the past five years, the state remains the national center for the car industry, according to the U.S. Dept. of Labor. The state had 181,000 people employed making vehicles or vehicle parts in August, down from 275,200 in August 2002.

No.2 Ohio, 109,200, down 18 percent from 133,700 five years ago;

No.3 Indiana, 81,900, down 15 percent from 96,300; and

No.4 Kentucky, 47,600, down 7 percent from 51,300.

The average Michigan manufacturing worker earned a seasonally adjusted \$944.06 and worked 42.5 hours per week in August. The pay average is up 0.9 percent from \$935.48 in August 2006, when the average work week was 43 hours.

Michigan is also taking other steps to fight back, including replacing its 30-year-old business tax with one that now gives bigger tax breaks to manufacturers on the equipment they own, charges profitable companies more than unprofitable ones and eliminates penalties for hiring more workers. Michigan businesses will see their premium rates for workers' compensation insurance drop in 2008 by more than 4 percent. Next year's drop is part of a downward trend over the past decade. During that time, the average rate has dropped nearly 36 percent. In addition, the state has launched a successful tourism campaign that's competing with those of surrounding states and regional draws such as Chicago. It's also attracting new businesses, including investments from foreign companies looking to tap into the possibility of creating many types of alternative energy using Michigan's wind, water and forests.

Local Economy - Adrian community leaders have been on the cutting edge of attracting and promoting commerce throughout the City's history, from establishing the first railroad East of the Alleghenies in 1836 to obtaining one of the first Michigan Economic Growth Authority (MEGA) tax credits for the Solvay Automotive Project in 1995. The Adrian area serves as the corporate headquarters for several businesses including Merillat Industries (a division of Masco). The Gleaner Life Insurance Society, the Kapnick Insurance Company and others.

The employer base remains diversified with several less recession-sensitive employers located in the community including governmental (City and County governments and a State Police Post) educational (Adrian College, Siena Heights University, Adrian Public Schools and the Intermediate School District, as well as the ISD-Vocational Education Center) and institutional organizations (Bixby Medical Center and Michigan Correctional Facility).

Adrian is the core community of the central region of Lenawee County. Its household count increased by over eight percent between 1990 and 2003, growing from 7,479 to 8,111. By 2008, this number is expected to increase to 8,449. If these projections hold, by 2008 a total of 338 new households will reside within the City.

Nevertheless, Lenawee County's economic fortunes are tied to the auto industry as well. The unemployment rate jumped to 9 percent in August when 775 jobs were lost. The county's labor force stood at 50,250, down 1,350 from a year earlier. The number of employed workers in the county is estimated at 45,725, down 1,200 from a year ago. Neighboring counties jobless rates grew even higher, with Hillsdale County up from 8.9 percent to 10.1 percent and Jackson County up from 8.0 percent to 8.2 percent.

The phased shut-down of Dura Corp. in Adrian is impacting Lenawee County's employment statistics with the elimination of 250 jobs. On the other hand, one positive sign is the opening of the NextDiesel biodiesel processing plant, also in Adrian, which employs 25 people, with plans for future expansion. Also, both Siena Heights University and Adrian College are reporting increased enrollment for the FY2007-08 school year.

Adrian College plans to welcome nearly 550 new students to its campus this fall. Total enrollment will be around 1,300 students. The five-year growth plan of 1,400 students, established two years ago, will definitely be met by next fall. Much of the growth is attributed to development of the new athletic programs and a broader marketing outreach. Siena Heights University is planning on 275 new full-time students, up 11 percent from the prior year, bringing enrollment to more than 1,200 graduate and undergraduate students at its main campus in Adrian. Siena is looking to grow to a maximum capacity of 3,000 students. New graduate programs in homeland security, emergency preparedness and nuclear power administration are new to Siena this year. Facility, faculty and housing expansions are being experienced on both campuses.

With the multiple higher education institutions of Adrian College, Siena Heights University and Jackson Community College, the City of Adrian benefits economically in many ways. The most obvious, of course, is payroll, health care, corporate purchases made from local businesses, personal purchases made possible by the salaries to faculty, staff and administrators, jobs provided to area residents, and more. The students impact area businesses both by serving in internship positions and filling open part-time job opportunities. In addition, they purchase everything from housing, gas for their vehicles, groceries, meals in restaurants,

entertainment, dorm and apartment furnishings, movies, clothing, books, gifts and more.

The City of Adrian recently recommitted to continue to support the business attraction and retention activities of the Lenawee Chamber for Economic Growth, amending its FY2007-08 Budget to include a \$41,000 appropriation for this purpose. To insure a measureable return on this investment the following working agreement has been established between the City and the Chamber:

**CITY OF ADRIAN – LENAWEЕ CHAMBER FOR
ECONOMIC DEVELOPMENT
FY 2007-2008 SERVICE CONTRACT WORK PROGRAM**

TASK 1 – Business Retention

1. The Lenawee Chamber for Economic Development, hereinafter referred to as the Chamber, shall identify, document, and monitor status for all industrial and commercial firms of 5+ employees within the Adrian corporate limits.

TIMING: Updated and Submitted Quarterly
DELIVERABLE: Print and Electronic List

2. The Chamber shall develop a program to conduct site visits/retention meetings with all identified firms during the contract term, documenting visits/meetings with at least 25% of the firms per calendar quarter. In advance of each site visit, the City Contact shall be provided the opportunity to participate or delegate a representative.

TIMING: Quarterly
DELIVERABLE: Quarterly Report in Print and Electronic Format

3. The Chamber shall report to City Contact on any issues or needs arising from site visits/retention meetings, with recommendation on action.

TIMING: Immediately as recognized
DELIVERABLE: Case Report

TASK 2 – City Marketing

1. The Chamber shall develop and maintain a City Marketing Package in consultation with the City Contact and others as deemed appropriate. Such Package shall be consistent with and inclusive of other City marketing activities/products, and shall be approved for use by the City of Adrian. The Package may be constructed in conjunction and be a component of a Lenawee County, but shall have the ability to stand alone for direct use.

TIMING: Four (4) Months from Start of Contract
Term
Updates thereafter to be made Quarterly.
DELIVERABLE: Package Materials in Print and Electronic
Format

2. The Chamber shall develop and execute a program to disseminate City marketing information, including but not limited to the City Marketing Package. The program shall be approved in advance by the City of Adrian and shall utilize multiple media formats and communication mechanisms.

TIMING: Six (6) Months from Start of Contract
Term
DELIVERABLE: Program Schedule at Outset
Updates provided Quarterly

TASK 3 – Business Recruitment

1. The Chamber shall diligently pursue contacts with out-of-Lenawee County business prospects and present an initial case (utilizing City Marketing Package or other appropriate materials) for locating or relocating business operations to the City of Adrian.

TIMING: Ongoing
DELIVERABLE: Quarterly Report

2. The Chamber shall notify and/or meet the City Contact immediately as contact from any bona fide recruitment prospect is received, develop a detailed location proposal with guidance from the City Contact, MEDC representatives, and other entities as appropriate and needed. Under guidance of the City Contact, Chamber shall facilitate discussions with and act as the lead contact with the prospect until a location decision is reached.

TIMING: Ongoing as Contact is received
DELIVERABLE: Quarterly Report

3. The Chamber will not propose any city services or tax abatements to a business prospect without city knowledge and approval.

TIMING: Ongoing
DELIVERABLE: Quarterly Report

TASK 4 – Communication

1. The Chamber shall generate and maintain open and clear communication on all activities identified in this Work Program with the City of Adrian, the City Contact, all other economic development partners, and other entities as determined by the City Contact.

TIMING: Ongoing
DELIVERABLE: Quarterly Report

2. The Chamber will immediately notify the City Contact when it obtains any information regarding a significant increase or decrease in the workforce of any business in the city.

TIMING: Ongoing
DELIVERABLE: Quarterly Report

3. The Chamber will monitor proposed State legislation and will advise the City Contact of any such legislation that may significantly impact the city or business in the city.

TIMING: Ongoing
DELIVERABLE: Quarterly Report

Long Term Financial Planning – Each December the City Commission and Department Heads convene to develop a five-year strategic plan for capital improvements, within the context of the following Mission Statement and Commitments:

The elected and appointed officials, as well as the employees, of the City of Adrian are dedicated to providing equitable access to public services and opportunities for the common good of our citizens. We shall respond to the needs of the Adrian community through the delivery of cost effective, exceptional service that results in an enhanced quality of life.

We are committed...

- to improving, developing and maintaining the municipal infrastructure
- to promoting the economic health of the community
- to providing for public health, welfare and safety
- to fostering communication and cooperation
- to providing recreational, leisure and cultural opportunities
- to supporting city-wide beautification, and
- to promoting quality neighborhoods.

Highlights of the current program include:

- the continuing upgrade of computer technology throughout the City departments, including Geographic Information System(GIS) enhancements, Library records management system, Accounting and Financial Reporting, Payroll, Assessing and Treasury functions, and City Clerk/Police Department document management system,
- prudent use of the \$20 million Fee Estate endowment to expand passive recreation throughout the community, such as the recent completion of the Trestle Park, and renovation of Burr Ponds,
- A site has been purchased on Logan Street, cleared of fifteen (15) silos, environmental assessment performed, design work completed, and contractor selected to construct a new Transportation Center to house seventeen (17) busses owned and operated by the City's Dial-A-Ride System and Lenawee County's Transportation System. Construction will begin this fall with occupancy occurring in 2008.
- The City is in final negotiations to finance acquisition of a site for an existing building that will be renovated and serve as a new Parks and Forestry Maintenance facility,
- Street tree inventory was completed in 2002 and an additional 900 new planting sites have been added to the 6,500 existing trees on City right-of-ways,
- The burial records of the 19,000 former residents interred at the Oakwood Cemetery since 1848 have been computerized to aid visitors and researchers in their identification and location efforts,
- Three years ago, voters approved a two-year fourteen (14%) percent telephone surcharge to support the Lenawee County Central Dispatch to update the 911 system by adding computer-aided dispatch (CAD) Countywide (including the City of Adrian Police and Fire Departments); on the August 8, 2006 ballot a proposal to extend the surcharge an additional ten (10) years was approved,

- The Adrian Public Library has upgraded its computer system with the addition of the Polaris catalog reference system, as well as obtained several private donations to enhance material acquisitions, furniture and program activities,
- An Internal Service Fund, Fire Department Motor Pool, has been established in the FY2007-08 Budget to provide systematic funding for future replacement of all rolling stock, as well as operating, maintenance and insurance costs.
- In addition, Fire Department equipment has been upgraded and expanded to better serve homeland security requirements,
- the City Clerk has upgraded the City's election system and has initiated a new electronic archiving system that will facilitate access to City records and save space,
- infrastructure improvements are progressing throughout the City, including implementation of a storm-water separation project, accelerated sidewalk repair and replacement program and many street improvement projects funded by a successful millage renewal of ten (10) years approved by the voters on August 8, 2006, as well as installation of an electric generator to eliminate power interruptions that cause sanitary sewer overflows and plant permit violations,
- Funding in the Auto Parking Fund contemplates complete reconstruction of the Church Street Parking Lot, as well as a complete assessment of future parking infrastructure needs throughout the downtown,
- the Utilities Department is in the process of developing a new ground water source that has the capability of replacing the current surface water source of the City's potable water supply. Right-of-way has been obtained and low-interest (2 1/8%) state financing has been arranged to allow the project to go forward

Long-range financial planning, of course, is affected by the City's revenue stream. The negative effects of "Proposal A" of 1994 are finally coming home to roost, particularly for older, low-growth rate communities like Adrian. The full impacts of this proposal on local government service levels were delayed by the unusually long robust economy experienced through the mid- and late 1990s. Proposal A will reduce City General Fund revenues from property taxes by about \$1,290,000 during fiscal year 2007-08 alone. Because of the State's greater reliance on the sales tax as a revenue producer, the slowing economy had a greater relative effect on State shared revenue payments, on which about 19% of the City's General Fund revenues are dependent, down from 20% last year.

Two important laws passed by the Michigan Legislature this term could have a significant impact on the economy. The first increases the minimum wage from \$5.15 per hour to \$6.95, beginning October 1,

2006, to \$7.15 beginning July 1, 2007, and to \$7.40 beginning July 1, 2008. The second, PA345 Of 2006, the Omnibus Appropriations Act, repealed the Single Business Tax, effective December 31, 2007, eliminating almost \$1.9 billion annually from the state treasury.

On July 12, 2007, Governor Granholm signed into law (PA36 of 2007) a package of bills creating the new **Michigan Business Tax (MBT)**. The tax will take effect on January 1, 2008 for all business activity in the state occurring after December 31, 2007.

History

Michigan's former tax, the Single Business Tax (SBT), was the only value-added tax in the country. Because it was unique, complying with the SBT was complex and expensive. Being a value-added tax led to several unfortunate results: businesses could be stuck with a large liability even if they were not making a profit, and there was a disincentive to hire workers in Michigan because payroll deductions claimed for Federal tax purposes were added back in arriving at the SBT tax base.

General

The MBT is imposed on any business that has a physical presence in Michigan for more than one day during the year or if the business activity solicits sales in Michigan and has gross receipts of \$350,000 or more that are attributable to Michigan. Taxpayers with gross receipts between \$350,000 and \$700,000 receive a credit that reduces their tax liability. The credit provides for a phase-in of the tax liability once a taxpayer reaches \$350,000 in gross receipts.

The tax is actually a combination of two different taxes, a business income tax and a gross receipts tax. The business income tax is imposed at a rate of 4.95% of a taxpayer's "business income tax base" apportioned to the State of Michigan. The modified gross receipts tax is imposed at a rate of 0.80% of a taxpayer's "modified gross receipts tax base" that is apportioned to Michigan. After the taxes are computed, businesses are eligible for several credits.

Although the MBT is intended to be revenue neutral compared to the SBT, the MBT will change the distribution of tax liabilities. Generally, manufacturing firms would experience a tax liability reduction compared to the SBT, while non-manufacturing firms would experience a tax increase. Similarly, while Michigan-only firms and multi-state firms that are based outside of Michigan will generally experience liability increases, Michigan-based multi-state firms will generally experience liability reductions.

Property Tax Relief

In addition to the business tax changes brought about by the MBT, the Michigan personal property tax has been dramatically reduced. The personal property tax rate will be reduced by 12 mills for commercial property and 24 mills for industrial property. These reductions in the personal property tax will greatly benefit the manufacturing sector and other businesses that have substantial tangible personal property assets.

Credits Against the MBT

The MBT carries over several credits previously applicable to the SBT. In addition, several new credits were created. Below is a summary of some of these credit provisions.

1. *Credit Carry-forward from the SBT* – The MBT permits a taxpayer to apply any unused SBT credit carry-forwards during the 2008 and 2009 tax years. After 209, any remaining unused SBT credit carry-forwards will be lost.
2. *Compensation credit* – A taxpayer is permitted to claim a credit equal to 0.370% of the compensation paid by the taxpayer in Michigan. “Compensation” means all wages, salaries, fees, bonuses, commissions or other payments made in the tax year on behalf of or for the benefit of employees, officers, or directors of the taxpayer, and any earnings that are net earnings from self-employment of the taxpayer or a partner or limited liability company member of the taxpayer.
3. *Small Business Credit* – A taxpayer that has gross receipts greater \$350,000 but less than \$700,000 is eligible for a credit equal to the amount of tax imposed under the MBT. The amount of the credit is 100% of the tax liability if the taxpayer’s gross receipts are \$350,000 and is 0% of the tax liability if the taxpayer’s gross receipts are \$700,000. The tax credit is phased out ratably between these two amounts, in effect resulting in a graduated tax rate.
4. *Additional Small Business Credit* – A taxpayer that has gross receipts that do not exceed \$20 million and adjusted business income that does not exceed \$1.3 million is entitled to a credit that essentially permits the taxpayer to pay a flat tax of 1.8% of adjusted business income. This credit is only available if the compensation paid to certain key employees falls below certain disqualifying amounts. The credit is phased out for businesses that have gross receipts between \$19 million and \$20 million.

5. *Depreciable Asset Credit* – A taxpayer is permitted to claim a credit equal to 2.9% of the value of any depreciable property that is put into service and is located in Michigan for use in a business activity in Michigan, less the proceeds (net of any gain or loss) on the disposition of any depreciable property. Mobile assets are treated as used in Michigan in proportion to the sales apportionment factor used by the taxpayer to calculate its tax liability. If the credit is a negative number (because more property is retired from service than put into service), the negative credit will be treated as an additional tax liability.
6. *Research and Development Credit* – A taxpayer is permitted a credit equal to 1.90% of the taxpayer's research and development expenses within Michigan.
7. *Public Contributions Credit* – A taxpayer is permitted a credit equal to 50% of any contributions to public broadcasting stations; public libraries; institutions of higher learning; the Michigan colleges foundation; or the Michigan housing and community development fund. The amount of the credit cannot exceed the lesser of \$5,000 or 5% of the taxpayer's MBT tax liability.
8. *Museum and Zoo Credit* – A taxpayer is permitted a credit equal to 50% of the amount of any contributions in excess of \$50,000 to a museum or to any municipality or non-profit organization affiliated with a municipality for the purposes of benefiting an art, historical, or zoological institute. The amount of the credit cannot exceed \$100,000.
9. *Community or Education Foundation Credit* - A taxpayer is permitted a credit equal to 50% of any contributions to the endowment fund of a community foundation or education foundation. The amount of the credit cannot exceed the lesser of \$5,000 or 5% of the taxpayer's MBT tax liability.
10. *Homeless Shelter and Food Bank Credit* - A taxpayer is permitted a credit equal to 50% of any contributions to a homeless shelter or food bank. The amount of the credit cannot exceed the lesser of \$5,000 or 5% of the taxpayer's MBT tax liability.
11. *Worker's Disability Compensation Credit* – A taxpayer is permitted a credit equal to the amount the taxpayer paid under the Worker's Disability Compensation Act for the tax year.

12. *Job Creation Credit* – The state will approve credits for up to 20 businesses per year that permit a credit equal to 30% of any eligible contributions from qualified taxpayers to the businesses, up to a maximum credit of \$300,000. The goal of the credit is to create jobs and to positively impact the local economy.
13. *MEGA Credit* – For companies that are expanding or relocating their businesses in Michigan, the MEGA credit that was used under the SBT continues under the MBT. Credits are permitted for up to 20 years.
14. *Entrepreneurial Credit* – For 2008, 2009 and 2010, a taxpayer may claim a credit equal to the taxpayer's MBT liability, if the taxpayer had gross receipts of less than \$25 million, created at least 20 new jobs in the first year the credit is claimed, and made a capital investment of at least \$1.25 million in the state in the preceding tax year (the investment requirement is reduced to \$600,000 for subsequent years that the credit is claimed).
15. *Small R&D Business Startup Credit* – A business that conducts research and development and that has fewer than 25 employees and less than \$1 million in sales is entitled to credits equal to its MBT liability for up to five years if it has no business income but still has tax liability due to the modified gross receipts tax.
16. *Personal Property Tax Credit* – A taxpayer is entitled to the following credits:
 - a. 35% of any taxes paid on eligible personal property during the year. Eligible personal property generally includes any property that is classified as industrial personal property.
 - b. 23% of the amount paid in property taxes on eligible telephone personal property during 2008. Eligible telephone personal property is personal property of a telephone company that is subject to personal property taxes. The credit amount is reduced to 13.5% for years after 2008.
 - c. 10% of the amount paid in property taxes on eligible natural gas pipeline property during the year.

Rebates

The law contains a revenue cap that limits the amount of tax that can be collected under the MBT. If the collections exceed this amount in 2008, 2009 or 2010, half of the excess will be returned to taxpayers in the form of a rebate. These limits do not apply to years after 2010.

State Budget Deficit Resolved

After a temporary shut-down of state government for four hours, state lawmakers changed the retirement and health care benefits management of some teachers and state employees in their rush to fix Michigan's projected budget shortfall of \$1.75 billion. The deal extends the most recent budget plan 30 days, addressing the deficit by raising the state's income tax from 3.9 percent to 4.35 percent and imposing the 6 percent sales tax on a variety of services. About \$440 million in spending cuts still need to be resolved before final passage of the appropriations bills to fund the new fiscal year's budget.

City of Adrian Fund Balance – General Fund

Governmental Funds report the difference between assets and liabilities as *fund balance*, which is divided into *reserved* and *unreserved* portions. The function of *reserved fund balance* is simply to isolate the portion of fund balance that is *not* available for the following period's budget, so that *unreserved fund balance* can serve as a measure of currently available financial resources.

The reservation of fund balance is necessary for two reasons:

- *Resources not available for spending.* Some of the assets reported in governmental funds are not available for spending in the subsequent year's budget. For example, a *long-term* loan receivable, such as an advance to another fund, is not available for *current* spending. Likewise, governments like the City of Adrian that elect to report supplies, inventories and prepaid items in governmental funds typically would report a corresponding amount of *reserved fund balance* to indicate that these amounts are not actually available for spending.
- *Legal restrictions on spending.* Fund balance is also reserved to indicate situations where a portion of fund balance is not available for new spending because of legal restrictions involving parties outside the financial reporting entity. The most common example is amounts reserved for encumbrances, which represent contracts for goods or services with outside parties that are still outstanding at the end of the period and that the City intends to honor.

Unreserved fund balance may, in turn, be subdivided into *designated* and *undesignated* portions. Designations represent management's intended use of resources and should reflect actual plans approved by the City's senior management. Expressed another way, designations reflect a government's self-imposed limitations on the use of otherwise available current financial resources.

The following schedule presents an analysis of changes in General Fund – Fund Balance between FY2005-06 and FY2006-07:

**CITY OF ADRIAN
FY2006-07 YEAR-END REPORT**

**GENERAL FUND
Designated Fund Balance
(Including Audit Adjustments)**

Fund Balance as of June 30, 2006		\$6,044,166
Reserves for:		
Inventories and Prepayments	\$184,573	
Encumbrances	300,777	
Total Reserved Fund Balance as of June 30, 2005		485,350
Unreserved Fund Balance as of June 30, 2006		\$5,558,816
FY 2006-07 Revenue and Other Sources	\$12,104,922	
FY2006-07 Expenditures	12,025,570	
Revenue Over/(Under) Expenditures		79,352
FY2006-07 Reserve for Inventories and Prepayments	\$176,636	7,937
FY2006-07 Reserve for Encumbrances	627,165	(326,388)
Estimated Unreserved Fund Balance as of June 30, 2007		\$5,319,717
Proposed Designations of Unreserved Fund Balance (Acct. #393.000):		
1 City Hall	\$2,000,000	
2 DPW-Motor Pool – Depreciation Catch-Up	700,000	
3 Fire Dept. Motor Pool – Working Capital	400,000	
4 Police Facility - First Year Debt Service	250,000	
5 Adrian Public Library - Façade Replacement	200,000	

6	City Vehicles - Storm Damage	100,000	
7	Property Acquisitions, Demolitions and Options	150,000	
8	Library Elevator Repairs	50,000	
9	Telecommunication Upgrades	50,000	
10	Technology Infrastructure Upgrades (GIS, Other)	50,000	
11	City Hall Roof Replacement	40,000	
12	Local Grant Match	25,000	
	Total Proposed Designations		4,015,000

Estimated FY2006-07 Undesignated Fund Balance

\$1,304,717

The decrease in the Unreserved General Fund-Fund Balance (\$239,099) is mainly attributable to a \$326,388 increase in year-to-year encumbrances and carry-forwards, primarily authorized funding reserved for the completion of the Burr Ponds Project, partially offset by the \$79,352 favorable balance resulting from FY2006-07 operations. The primary reason is that General Fund operating subsidy to the Automobile Parking System was reduced to \$6,000, \$133,000 less than the prior year.

Cash Management Policies and Practices – Cash temporarily idle during the year was invested in money market accounts, certificates of deposit, obligations of the U.S. Treasury, pooled investments and managed portfolio trusts that adhere to the City's adopted investment policy and Public Act 20 of 1943, as amended, Investment of Public Funds Act. The following exhibit compares investments on June 30, 2007 with the prior fiscal year, reflecting an overall increase of \$1,405,913.

<u>Investment Type</u>	<u>FY2005-06</u>	<u>FY2006-07</u>
Money Market Accounts	\$ 433,453	\$ 681,777
Certificates of Deposit	3,226,321	4,243,416
U.S. Government Securities	5,623,563	5,560,950
Pooled Investments	-0-	203,107
	<u>\$ 9,283,337</u>	<u>\$10,689,250</u>

The exhibit below shows the amount of interest earnings by each type of fund during the 2006-07 fiscal year, compared with the prior fiscal year.

<u>Fund Type</u>	<u>FY2005-06</u>	<u>FY2006-07</u>
General Fund	\$277,654	\$377,447
Other Governmental Funds	80,620	172,081
Proprietary Funds	67,409	112,748
	<u>\$425,683</u>	<u>\$662,276</u>

City of Adrian investment policy specifies that all public funds held by the City, including federal funds, shall be deposited and/or invested with agencies that are recognized and authorized by Michigan statutes for that purpose. All certificates of investments of funds entrusted to the City of Adrian shall remain in the custody of the Finance Department unless otherwise authorized by the City Commission. As of June 30, 2007 all certificates of investments were in custody of the Finance Department.

Risk Management – The City is a member of the Michigan Municipal Liability and Property Pool for its general liability property coverage and a member of the Michigan Municipal Workers Compensation Fund for its workers' compensation coverage. Both pools are under the Michigan Municipal Program sponsored and administered by the Michigan Municipal League (MML).

The City pays annual premiums to the insurance pools. The pools are self-sustaining through member premiums, and each carries reinsurance through commercial companies for claims in excess of a minimum of \$1,000,000 for each specific occurrence, and to a minimum of \$2,000,000 in aggregate in excess of the pool loss reserve fund. Based on an historical claims analysis by the Finance Department, deductibles for Comprehensive General Liability, Personal Injury Liability and Public Officials Liability coverages were increased from \$1,000 to \$5,000, two years ago resulting in an annual savings of almost \$30,000.

The City of Adrian was selected as a BETA SITE by the MML for testing improved risk management assessment and reporting, implemented in 2005. In addition, the City Commission last year adopted a new Motor Vehicle Safety Policy.

Pension and Other Post-employment Benefits- The City of Adrian is a member of the Municipal Employees' Retirement System (MERS) of Michigan. The pension program is administered by the MERS Board under the provisions of the Municipal Employees' Retirement Act of 1984, as amended by Public Act 220 of 1996, as embodied in the MERS Plan Document. The pension program is categorized as a Defined Benefit Program with eligibility earned at age 60 with 8 or more years of credited service with annual retirement benefits for General Non-represented employees based on 2.25 percent (recently improved from 2.0 percent) of Final Average Compensation (FAC defined as the three consecutive year period of credited service in which the average compensation paid is highest) times years of credited service. For the current reporting period, employee contributions for General employees amount to 3.0 percent of salary (increased to 4.0 percent effective with execution of the FY2007-08 Budget) while employer contributions (\$816,109) equate to 6.0 percent.

Upon recommendation of the City Administrator, the City Commission, in 2005, improved the Defined Benefit Program by reducing the required years of credited service to achieve full vesting rights from 10 year to 8 years. Pension benefits, as well as employee and employer contributions, for Represented employees are determined in the collective bargaining process. Total Regular Employee Contributions for Fiscal Year 2006-07 amounts to \$306,827. As of December 31, 2005, the Pension Plan had Net Assets of \$38,692,642 with an Unfunded Actuarial Accrued Liability of \$5,872,651.

Fiduciary Operation- The City of Adrian has a perpetual care fund from which the interest earnings are used to maintain the cemetery. Interest earnings amounted to \$39,524 for Fiscal Year 2006-07, an increase of \$25,534, and the investment balance increased to \$790,929.

Awards and Acknowledgements

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Adrian for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2006. The Certificate of Achievement is the highest form of recognition for excellence in state and local government financial reporting. This was the twentieth consecutive year that the City has received this prestigious award.

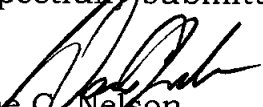
In order to attain the Award, a government unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report with contents in conformance with program standards. Such Report must satisfy both generally accepted accounting principles (GAAP) and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to GFOA for review.

In addition, the City's Chief Financial Officer has been recognized by the Michigan Government Finance Officers Association (MGFOA) for his career-long contributions to that organizations success by according its highest award of Honorary Life Member. In addition, recognition has been accorded for service as the GFOA Representative to the State of Michigan for the period 2003-2007.


The preparation of the Comprehensive Annual Financial Report on a timely basis was made possible by the dedicated service of the entire staff of the Finance Department. Each member of the department has our sincere appreciation for the contributions made in preparation of this report.

In closing, credit must also be given to the Mayor and the City Commission for their unfailing support for maintaining the highest standards of professionalism in the management of the City of Adrian's finances.

Respectfully submitted,



Dane C. Nelson
City Administrator



Jeffrey C. Pardee, C.P.F.O.
Finance Director

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Adrian
Michigan

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2006

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



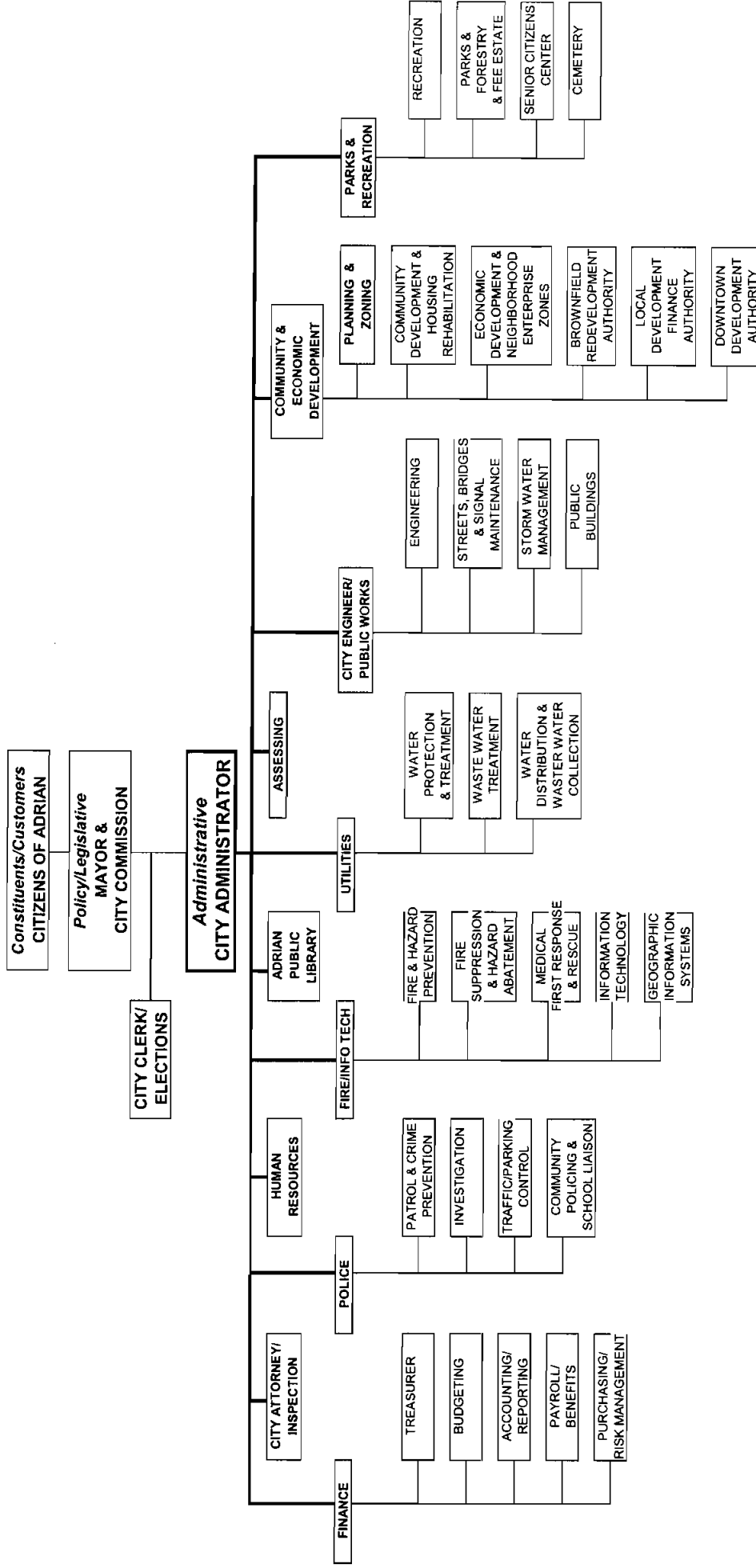
A handwritten signature in black ink, appearing to read "Roma Plann".

President

A handwritten signature in black ink, appearing to read "Jeffrey R. Emer".

Executive Director

Y OF ADRIAN ORGANIZATION CHART



CITY OF ADRIAN, MICHIGAN

LIST OF PRICIPAL OFFICIALS

June 30, 2007

<u>NAME</u>	<u>TITLE</u>
Gary McDowell	Mayor
Michael Clegg	Commissioner
Greg Dumars	Commissioner
Barbara Mitzel	Commissioner
Michael Osborne, Jr.	Commissioner
Harry "Dusty" Steele	Commissioner
Kirk Valentine	Commissioner
Dane C. Nelson	City Administrator
Jeffrey C. Pardee, C.P.F.O.	Finance Director
Sarah Osburn	City Attorney
Maria Irish	City Assessor
Terrence Collins	Police Chief
Paul G. Trinka	Fire Chief/IT Director
Mark Gasche	Parks & Recreation Director
Carol Souchak	Library Director
Keith Dersham	City Engineer/Public Works Director
Marsha K. Rowley	City Clerk
James Caldwell	Utilities Director
Heather Lasky	Human Resources Director
James Tischler	Community/Economic Develop Dir.
Marcia Bohannon	Transportation Coordinator
Kyle Hoffman	Downtown Development Director

August 7, 2007

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
Members of the City Commission
City of Adrian, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Adrian, Michigan, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. We have also audited each nonmajor governmental fund and internal service fund, each nonmajor enterprise fund, and the fiduciary fund type presented in the accompanying combining and individual fund financial statements and schedules, also individual fund statements for discretely presented component units; and schedules of indebtedness of the City of Adrian, Michigan, as of and for the year ended June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the City of Adrian, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Adrian, Michigan, as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison for the all major governmental funds for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each nonmajor governmental and internal service funds nonmajor enterprise fund, and fiduciary fund type of the City of Adrian as of June 30, 2007, and the respective changes in the financial position and cash flows, where applicable, thereof and the budgetary comparison for all nonmajor governmental funds, and includes the individual fund statements for discretely presented component units and schedules of indebtedness for the year then ended in conformity with accounting principles generally accepted in the United States of America.

August 7, 2007

To the Honorable Mayor and
Members of the City Commission
City of Adrian, Michigan

In accordance with *Government Auditing Standards*, we have also issued our report dated August 7, 2007 on our consideration of the City of Adrian, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and pension plan schedule on pages 33 through 45 and page 95, is not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Adrian, Michigan's basic financial statements. The introductory section, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the City of Adrian, Michigan. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Robertson, Eaton & Owen, P.C.

CITY OF ADRIAN, MICHIGAN

COMPREHENSIVE ANNUAL FINANCIAL STATEMENT

Management's Discussion and Analysis

October 7, 2007

As management of the City of Adrian, we offer readers of the City of Adrian's financial statements this narrative overview and analysis of the financial activities of the City of Adrian for the fiscal year ended June 30, 2007. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages 1-26 of this report. All amounts, unless otherwise indicated, are presented in whole dollars.

Financial Highlights

- The Assets of the City of Adrian exceeded its liabilities at the close of the most recent fiscal year by \$67,137,196 (*net assets*). Of this amount, \$8,137,965 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$2,655,102, a \$2,485,983 increase in Governmental Activities, and a \$169,119 increase in Business-Type Activities. The primary contributing factors relating to the increase in Net Assets for Governmental Activities are:

Cash and cash equivalents	\$ 612,315
Investments	556,308
Permanently Restricted Investments	549,356 (Swigert Senior Trust/Perpetual Care)
Land Improvements	549,950 (Burr Ponds Park Improvements)
Other	<u>218,054</u>
Total	<u>\$2,485,983</u>

The primary reason for the overall increase in net assets in Business-Related Activities is that Utility Systems Construction In-Process increased by \$5,288,490, more than offsetting the normal decrease in depreciated capital assets associated with utility funds.

- As of the close of the current fiscal year, the City of Adrian's governmental funds reported combined ending fund balances of \$11,322,782, an increase of \$1,409,569 in comparison with the prior year. Following is a summary of Net Change in Fund Balance for selected Funds:

General Fund	\$ 79,352
Major Street Fund	346,115
Local Street Fund	308,782
Endowment Trust Fund	510,743 (Swigert Senior Trust)
Other	<u>164,577</u>
Total	<u>\$1,409,569</u>

The General Fund experienced an increase even though the City Commission, during the course of FY2006-07, approved several draw downs on Fund Balance totaling \$1,589,506, including those listed below. Several have not been fully expended and those that have were more than covered by current revenues.

<u>Description</u>	<u>Authorized</u>	<u>Expended</u>	<u>Balance</u>
Burr Ponds	\$ 819,536	\$470,633	\$348,903
Encumbrances & Carry-forwards	314,294	210,139	104,155
Replace Engine Pumper #1	254,582	137,967	116,615
New Telephone System	120,789	117,369	3,420
Purchase 250 W. Church Street	32,775	0	32,775
Library Façade Expenses	30,000	25,380	4,620
Demo Heritage Park Farm House	9,350	9,350	0
Demo 451 W. Maumee	6,200	5,700	500
Demo 310 Riverside Drive	1,980	1,980	0
Total	<u>\$1,589,506</u>	<u>\$978,518</u>	<u>\$610,988</u>

Most of the balance will be included as Encumbrances and Carry-forwards in the FY2007-08 Budget and will be included in the new year's financial performance.

The favorability in the Major Street Fund (\$346,115) reflects an advanced, but discounted, grant payment in the amount of \$281,250 (75% of the original grant amount-\$375,000) from the Michigan Department of Transportation (MDOT) for repaving Maple Avenue. The project is expected to be constructed in 2009, after completion of the construction of underground pipelines associated with the groundwater utility project. In the meantime, the funds are invested at a rate of 5.23% until needed.

Approximately three-quarters (73.3%) of the total fund balance, \$8,297,016, is *available for spending* at the City Commission's discretion (*unreserved fund balance*).

- At the end of the current fiscal year, unreserved fund balance for the general fund was \$5,319,717 or forty-four (44%) percent of total general fund expenditures. Of this amount, management has designated \$4,015,000 for the following specific projects, leaving \$1,304,717 in Unreserved/Undesignated Fund Balance.

1)	City Hall	\$2,000,000
2)	DPW-Motor Pool Depreciation Catch-Up	700,000
3)	Fire Department Motor Pool – Working Capital	400,000
4)	Police Facility – First Year Debt Service	250,000
5)	Adrian Public Library – Façade Replacement	200,000
6)	City Vehicles – Storm Damage	100,000
7)	Property Acquisitions, Demolitions and Options	150,000
8)	Library Elevator Repairs	50,000
9)	Telecommunication Upgrades	50,000
10)	Technology Infrastructure Upgrades (GIS, Other)	50,000
11)	City Hall Roof Replacement	40,000
12)	Local Grant Match	25,000
	Total	<u>\$4,015,000</u>

- The City of Adrian's total debt burden increased by \$4,700,426 or twenty-seven (27%) percent during the current fiscal year to a total of \$22,102,717, equivalent to \$995 per capita or 4.6% of Personal Income. General Obligation Debt decreased \$213,072, from \$984,260 to \$771,180, due to retirement of debt on Storm Water Utility Bonds (\$100,000), and debt service payments on Parks & Recreation Installment Purchase Agreement (\$113,072) for acquisition of the Marvin

Farm. Outstanding Revenue Bond Debt increased by \$4,913,498, from \$16,418,031 to \$21,331,529 due to draw downs on the Sewer Revolving Fund Loan (\$5,513,498), even though scheduled reductions in outstanding principal were achieved due to debt service payments made on both the Sewer Revolving Fund Loan (\$365,000) and Drinking Water Revolving Fund Loan (\$235,000).

Overview of the Financial Statements

These discussion and analysis are intended to serve as an introduction to the City of Adrian's basic financial statements. The City of Adrian's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City of Adrian's finances, in a manner similar to private-sector business.

The *Statement of Net Assets* (Pages 48-49) presents information on all of the City of Adrian's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Adrian is improving or deteriorating.

The *Statement of Activities* (Pages 50-51) presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Adrian that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City of Adrian include general government, public safety, highways and streets, sanitation, economic development, and culture and recreation. The business-type activities of the City of Adrian include water and sewer operations, storm water utility and automobile parking activities, as well as Dial-A-Ride Transportation.

The government-wide financial statements include not only the City of Adrian itself (known as the *primary government*), but also a legally separate Downtown Development Authority and a legally separate Local Development Finance Authority for which the City of Adrian is financially accountable. Financial information for these *component units* is reported separately from the financial information presented for the primary government itself. The Dial-A-Ride transportation system and OMNI drug enforcement unit function for all practical purposes are departments of the City of Adrian and, therefore, have been included as an integral part of the primary government. The government-wide financial statements can be found on pages 48-51 of this report.

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Adrian, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Adrian can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City of Adrian maintains ten individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the general fund, major streets and local street funds, and the Fee and Public-Purpose Fund, all four of which are considered to be major funds. Data from the other six governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report. The basic governmental fund statements can be found on pages 52-55 of this report.

The City of Adrian adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget (reference pages 57-59).

Proprietary Funds. There are traditionally two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City of Adrian uses enterprise funds to account for its water and sewer operations and for the Automobile Parking and Dial-A-Ride Systems, as well as the Capital Projects Revolving Fund and Storm Water Utility Fund. *Internal service funds* are an accounting device normally used to accumulate and allocate costs internally among the City of Adrian's various functions. The Information Technology Fund was established with the implementation of the FY2004-05 Budget.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water System and the Wastewater System, both of which are considered to be major funds of the City of Adrian. Conversely, the Capital Projects Revolving Fund, Dial-A-Ride, Storm Water Utility and the Automobile Parking System funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for these enterprise funds is provided in the

form of *combining statements* elsewhere in this report. The basic proprietary fund financial statements can be found on pages 62-66 of this report.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are *not* available to support the City of Adrian's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on page 67 of this report.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 68-93 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the City of Adrian's progress in funding its obligation to provide pension benefits to its employees through employer contributions and required employee contributions. Required supplementary information can be found on page 95 of this report.

The combining statements referred to earlier in connection with non-major governmental funds and enterprise funds are presented immediately following the required supplementary information on pensions. Combining and individual fund statements and schedules can be found on pages 98-136 of this report.

The Schedule of Indebtedness can be found on pages 146-151.

Economic Condition Reporting: The Statistical Section

The Governmental Accounting Standards Board (GASB) has issued Statement 44 regarding Economic Condition Reporting for General Purpose Local Governments. Although the provisions of Statement 44 are effective for Statistical Sections prepared for periods beginning after June 15, 2005, the City of Adrian met the intent of this Statement through early adoption (FY2004-05) and by improving the understandability and usefulness of the Statistical Section information by addressing traditional comparability issues that have developed in practice and by adding information from the new financial reporting model for state and local governments required by Statement 34.

Statement 44 establishes the objectives of the Statistical Section and the five categories of information it contains – financial trends information, revenue capacity information, debt capacity information, demographic and economic information, and operating information.

This part of the City of Adrian's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City's overall financial health.

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Financial Trends	
These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.	
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Debt Capacity	
These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.	
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Exhibit D-3: Direct and Overlapping Government Activities Debt (as of June 30, 2005)	168
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Demographic and Economic Information	
These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.	
Exhibit E-1: Demographic and Economic Statistics (Last Ten Calendar Years)	171
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Operating Information

These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs.

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Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Adrian, assets exceeded liabilities by \$67,137,196 at the close of the most recent fiscal year.

By far the largest portion of the City of Adrian's assets (82.0%) reflects its investment in capital assets (i.e., land, buildings, machinery and equipment), less any related debt used to acquire those assets that is still outstanding. The City of Adrian uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City of Adrian's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to pay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

CITY OF ADRIAN'S NET ASSETS

	Governmental Activities		Business-Type Activities		Total	
	FY2006-07	FY2005-06	FY2006-07	FY2005-06	FY2006-07	FY2005-06
Current and Other Assets	\$12,728,725	\$11,048,568	\$4,390,688	\$3,793,710	\$17,119,413	\$14,842,278
Capital Assets	25,094,701	24,160,671	49,177,925	44,841,286	75,272,626	69,001,957
Total Assets	<u>\$37,823,426</u>	<u>\$35,209,239</u>	<u>\$53,568,613</u>	<u>\$48,634,996</u>	<u>\$91,392,039</u>	<u>\$83,844,235</u>
Long-Term Liabilities	\$1,185,775	\$1,197,620	\$21,446,106	\$16,659,734	\$22,631,881	\$17,857,354
Other Liabilities	978,876	838,827	644,086	665,960	1,622,962	1,504,787
Total Liabilities	<u>\$2,164,651</u>	<u>\$2,036,447</u>	<u>\$22,090,192</u>	<u>\$17,325,694</u>	<u>\$24,254,843</u>	<u>\$19,362,141</u>
Net Assets:						
Invested in Capital Assets (Net of Related Debt)	\$24,323,513	\$22,276,411	\$27,846,396	\$28,323,256	\$52,169,909	\$51,599,667
Restricted	5,199,264	3,869,047	1,630,058	1,417,981	6,829,322	5,287,028
Unrestricted	6,135,998	6,027,334	2,001,967	1,568,065	8,137,965	7,595,399
Total Net Assets	<u>\$35,658,775</u>	<u>\$33,172,792</u>	<u>\$31,478,421</u>	<u>\$31,309,302</u>	<u>\$67,137,196</u>	<u>\$64,482,094</u>

An additional portion of the City of Adrian's net assets, ten and two-tenths (10.2%) percent, represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (\$8,137,965) may be used to meet the City's ongoing obligations to citizens and creditors. At the end of the current fiscal year, the City of Adrian is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

Change in Net Assets. As explained earlier under Financial Highlights, the City's total net assets increased by (\$2,655,102). A summary of this increase, segregating Governmental Activities and Business-Type Activities, as well as a comparison with prior year's actual, follows:

CITY OF ADRIAN'S CHANGES IN NET ASSETS						
	Governmental Activities		Business-Type Activities		Total	
	FY2006-07	FY2005-06	FY2006-07	FY2005-06	FY2006-07	FY2005-06
Revenues:						
Program Revenues:						
Charges for Services	\$2,685,360	\$2,665,853	\$7,225,375	\$6,038,536	\$9,910,735	\$8,704,389
Operating Grants & Contribtns.	1,955,976	890,496	239,326	228,039	2,195,302	1,118,535
Capital Grants & Contributions	1,027,519	69,014	74,819	110,932	1,102,338	179,946
Total Program Revenues	\$5,668,855	\$3,625,363	\$7,539,520	\$6,377,507	\$13,208,375	\$10,002,870
General Revenues:						
Property Taxes	\$7,070,336	\$6,869,387			\$7,070,336	\$6,869,387
Other Taxes	3,682,914	3,717,523			3,682,914	3,717,523
Grants & Contributions not Restricted to Specific Programs	13,336	75,785			13,336	75,785
Unrestricted Investment Earnings	549,528	358,274	\$109,417	\$67,409	658,945	425,683
Total General Revenues	\$11,316,114	\$11,020,969	\$109,417	\$67,409	\$11,425,531	\$11,088,378
Total Revenues	\$16,984,969	\$14,646,332	\$7,648,937	\$6,444,916	\$24,633,906	\$21,091,248
Expenses:						
General Government	\$2,511,362	\$2,450,722			\$2,511,362	\$2,450,722
Public Safety	5,011,563	4,912,898			5,011,563	4,912,898
Public Works	1,169,030	1,122,058			1,169,030	1,122,058
Culture and Recreation	1,871,000	2,447,601			1,871,000	2,447,601
Other Services	2,105,016	1,668,073			2,105,016	1,668,073
Community/Economic	543,450	599,690			543,450	599,690
Development						
Highways, Streets & Bridges	1,153,185	2,418,910			1,153,185	2,418,910
Interest on Long-Term Debt	27,014	3,112			27,014	3,112
Wastewater System			\$3,788,575	\$3,731,181	3,788,575	3,731,181
Water System			2,984,185	2,924,884	2,984,185	2,924,884
Dial-A-Ride System			487,901	455,245	487,901	455,245
Auto Parking System			91,961	116,399	91,961	116,399
Storm Water Utility			234,562	227,688	234,562	227,688
Total Expenses	\$14,391,620	\$15,623,064	\$7,587,184	\$7,455,397	\$21,978,804	\$23,078,461
Transfers	-107,366	-120,930	107,366	120,930	0	0
Increase/(Decrease) in Net Assets	\$2,485,983	(\$1,097,662)	\$169,119	(\$889,551)	\$2,655,102	(\$1,987,213)
Net Assets - Beginning	\$33,172,792	\$34,270,454	\$31,309,302	\$32,198,853	\$64,482,094	\$66,469,307
Net Assets - Ending	\$35,658,775	\$33,172,792	\$31,478,421	\$31,309,302	\$67,137,196	\$64,482,094

Financial Analysis of the Government's Funds

As noted earlier, the City of Adrian uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City of Adrian's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. As of the end of the current fiscal year, the City of Adrian's governmental funds reported combined unreserved fund balances of \$8,297,016, an increase of \$512,161 in comparison with the prior year. The net increase is mainly attributable to a \$460,000 private donation from the Thelma H. Swigert Estate (Probate Case #11-0149-010). Pursuant to Mrs. Swigert's final will and testament, the aforementioned funds were bequeathed to the City of Adrian to be used for "an adult community center...for the improvement or refurbishing of said center, or...in an endowment so that the income may be used for operating expenses". Approximately three-quarters (73%) of the total fund balance, \$11,322,782, is *available for spending* at the City Commission's discretion (*unreserved fund balance*). The remainder of the fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed 1) to liquidate contracts and purchase orders of the prior period (\$1,733,336), 2) for inventories and prepayments (\$184,135), 3) to generate income to pay for the perpetual care of the municipal cemetery (\$794,956), 4) debt service on loans (\$217,967) or 5) for a variety of other restricted purposes (\$95,342).

The General Fund is the chief operating fund of the City of Adrian. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$5,319,717, while total fund balance reached \$6,123,518, an increase of \$79,352. The primary reason is that General Fund operating subsidy to the Automobile Parking System was reduced to \$6,000, \$133,000 less than the prior year. As a measure of the General Fund's liquidity, it is instructive to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents forty-four (44%) percent of the total General Fund expenditures, while total fund balance represents fifty (51%) percent of that same amount.

Other Governmental Funds include Major Streets, Local Streets, and Fee & Public Purpose Funds, as well as other minor funds, such as Perpetual Care and Endowment Funds. Collectively, their fund balances increased by \$1,330,217, to \$5,199,264. The favorability in the Major Street Fund - \$346,115 - reflects additional grant funding associated with reconstruction of Beecher Street, for which the final bills were not submitted by the close of the fiscal year, as well as increased investment earnings related to the investment of idle cash. The favorability in the Local Street Fund - \$308,782 - reflects increased special assessments related to the annual street improvements, as well as a reduced work program. The Endowment Trust Fund favorability - \$510,743 - again, reflects the Swigert Senior Trust donation.

Proprietary Funds. The City of Adrian's Proprietary Funds provide the same type of information found in the government-wide financial statements, but in more detail.

Net assets of the Wastewater Fund at the end of the year amounted to \$15,925,554, a decrease of \$259,541, attributable to a planned draw down on Retained Earnings to cover increased debt service expenses related to implementation of a Wastewater System Improvement Project Plan, thereby minimizing user rate increases. The Water System experienced an \$304,511 increase in net assets, from \$11,240,75 to \$11,545,261, primarily due to increased revenue from charges for services.

The total growth in all other Proprietary Funds was \$124,149, including Storm-Water Utility, Automobile Parking System, Dial-A-Ride System and Capital Projects Revolving Fund. Other factors concerning the finances of these funds have already been addressed in the discussion of the City of Adrian's business-type activities.

General Fund Budgetary Highlights

Differences in the original budget and the final amended budget amounted to a \$1,743,083 increase in appropriations and can be briefly summarized as follows:

Revised Budget for Burr Ponds	\$706,035
Encumbrances & Carry Forwards	314,294
Replace Engine Pumper #1	254,582
Telephone System	120,789
Firefighters Assist Act Grant	75,915
Tax Collection Fees	58,000
Investment Income	50,000
Senior Center Air Conditioning- Donation	42,668
Purchase 250 W. Church Street	32,775
Library Façade Expenses	30,000
Tow & Impound Fees	(20,000)
Emerald Ash Borer Grant	17,750
Livescan Applicant Fingerprinting	13,800
Purchase Unmarked Police Vehicle- Insurance Recovery	11,500
Demo Farm House (Heritage Park)	9,350
Demolition - 451 W. Maumee	6,200
School Election Fees	5,000
Canine Unit-Drug Forfeiture	4,700
Grave Openings - Cemetery Rate Changes	3,500
Endowment Trust - Library	3,000
Demolition - 310 Riverside Drive	1,980
Taser Unit Warranties-Drug Forfeiture	1,245
	<hr/>
	\$1,743,083

The above listed appropriations were budgeted from available fund balance. During the year, however, revenues exceeded budgetary estimates and expenses were less than budgetary estimates, thus reducing the need to draw upon existing fund balance.

Significant variances between the Amended Budget and Actual Revenue and Expenditures are identified and explained as follows:

Revenue:

Compared to the Amended Budget, actual revenue was unfavorable by (\$1,076,154). The significant variances are explained as follows:

- Uncollected Personal Property Taxes amounted to \$227,301 (equivalent to 3.4% of total taxes), due to poor economic conditions.
- Miscellaneous Revenue was unfavorable \$(955,779), which includes authorized appropriations from Prior Year Revenue such as renovation of Burr Ponds (\$819,536) and replacement of Fire Engine Pumper #1 (\$254,582).

Expenditures:

Compared to the Amended Budget, actual expenditures were favorable by \$1,662,705. The significant variances are explained as follows:

- General Government operations were favorable \$125,003, with the City Assessor favorable by \$38,722 due to less than expected cost for the reappraisal contract and Human Resources favorable \$88,128 due to less than expected cost of union contract negotiations.
- Public Safety operations were favorable by \$212,891, with the Fire Department favorable \$184,448 due to unspent capital equipment grant funds.
- Public Works operations were favorable by \$93,615, with the Motor Vehicle Pool favorable \$136,398 due to distribution of increased cost of fuel and equipment rental to user departments, partially offset by less than expected distribution of DPW salaries and wages (\$45,866).
- Culture and Recreation operations were favorable by \$266,872, due to turnover and committed but unspent capital purchases in the Department of Parks and Recreation - \$176,136 – as well as turnover in the Parks & Forestry Department - \$65,528.
- Non-Departmental expenditures were favorable by \$934,324, primarily due to partial completion of the Burr Ponds Project and committed but unspent Park Capital Improvement projects.

Other Financing Sources (Uses):

- Transfer-In unfavorable (\$506,654) due to postponement of Burr Pond Project.

Capital Asset and Debt Administration

Capital Assets. The City of Adrian's investment in capital assets for its governmental and business-type activities as of June 30, 2007 amounts to \$74,272,626 (net of accumulated depreciation), representing a year-to-year increase of \$5,270,669. Governmental Activities increased \$934,030, from \$24,160,671 to \$25,094,671, primarily due to land improvements at Burr Ponds Park - \$549,950, as well as increase in the value of the City's infrastructure related to Road improvements - \$793,793. Business-Type Activities increased \$4,336,639, from \$44,841,286 to \$49,177,925. The nature of the Business-Type Activities increase is primarily related to Sewer and Water System improvements, financed by low-interest loans from the State of Michigan. This investment in capital assets includes land, buildings and improvements, machinery and equipment, and park facilities, as well as roads, highways and bridges, and water/wastewater infrastructure. The total increase in the City of Adrian's investment in capital assets for the current fiscal year was 9.1 percent (a 3.9 percent increase for governmental activities and a 9.7 percent increase for business-type activities).

A summary of the City of Adrian's Capital Assets is provided on the next page. Additional information regarding the City of Adrian's capital assets can be found in note Note 3.C. (pages 79-81) of this report.

CITY OF ADRIAN'S CAPITAL ASSETS
(net of depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Land	\$7,571,137	\$7,571,138	\$ 927,460	\$ 904,592	\$8,498,597	\$8,475,730
Land Improvements	6,172,112	5,622,162	1,032,890	1,064,916	7,205,002	6,687,078
Buildings and Systems	1,749,127	1,831,430	82,933	0	1,832,060	1,831,430
Utility Systems	0	0	37,590,549	38,522,395	37,590,549	38,522,395
Machinery & Equipment	4,221,486	4,548,895	160,928	254,708	4,382,414	4,803,603
Infrastructure	5,380,839	4,587,046	0	0	5,380,839	4,587,046
Construction - In-Progress	0	0	4,094,675	9,383,165	9,383,165	4,094,675
Total Capital Assets	\$25,094,701	\$24,160,671	\$44,841,286	\$49,177,925	\$74,272,626	\$69,001,957

Long-Term Liabilities. At the end of the current fiscal year, the City of Adrian had total long-term liabilities of \$22,675,119, an increase of \$4,818,395 over the prior year. Of this amount, \$771,188 comprises debt backed by the full faith and credit of the City, a decrease of \$213,072 due to the retirement of \$100,000 remaining on an \$800,000 bond issue for Storm Water Utility and payment of debt service on an \$1,200,000 installment purchase contract through the Bank of Lenawee for the acquisition of park property in Adrian and Madison Townships (since annexed to the City), which will be completely repaid by 2013. Of the total outstanding debt, \$21,331,529 represents bonds secured solely by specified revenue sources (i.e., revenue bonds), a year-to-year increase of \$4,913,498, funds used to upgrade the City's Wastewater System. In addition, Accrued Sick and Vacation Compensation amounts to \$572,402, an increase of \$117,339 over the prior year. The City recently engaged a health benefit consultant (Kapnick Insurance Company) and, as a result, is examining the possibility of changing its accrued sick & vacation policies in favor of short- and long-term disability programs.

CITY OF ADRIAN'S LONG-TERM LIABILITIES
General Obligation and Revenue Bonds
Installment Purchase Obligations
Accrued Sick and Vacation

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
General Obligation Bonds	\$ 0	\$ 0	\$ 0	\$ 100,000	\$ 0	\$ 100,000
Revenue Bonds	0	0	21,331,529	16,418,031	21,331,529	16,418,031
Installment Purchase	771,188	884,260	0	0	771,188	884,260
Accrued Sick & Vacation	457,824	313,360	114,578	141,703	572,402	455,063
Total Long-Term Liabilities	\$1,229,012	\$1,197,620	\$21,446,107	\$16,659,734	\$22,675,119	\$17,857,354

On June 30, 2004, the City of Adrian had a number of debt issues outstanding. These issues consisted of general obligation debt and revenue bonds. The City has maintained an A1 bond rating from Moody's Investor Services and an A rating from Standard & Poor's on general obligation issues. Under current State statutes, the City's general obligation outstanding debt amount is subject to a legal limitation based on 10 percent of total assessed value of real and personal property. As of June 30, 2007 the City's net general obligation bond and installment debt of \$771,188 was well below the legal limit of \$44,301,192 and General Obligation debt per capita equaled \$34.71, a year-to-year decrease of \$9.60. During the year, the City issued no new General Obligation bonds.

Additional information on the City of Adrian's long-term debt can be found in Note 3 on pages 84-89 of this report.

Economic Factors and Next Year's Budgets and Rates

- The FY2007-08 Budget Recommendation was submitted at a time when economic conditions were stagnant and property values in a state of decline.
- Michigan's unemployment rate for August stood at 7.4 percent, the highest monthly jobless-rate since September, 1993.
- Michigan's unemployment continued to lead the nation, which stood at 4.6%.
- The unemployment rate for Lenawee County jumped to nine (9.0%) percent in July compared to 6.2 percent a year ago.
- Lenawee County's labor force stands at 50,250, down by 1,350 since July 2006. The number of employed workers in the County is estimated at 45,725, a decline of 1,200 from last year.
- Inflationary trends in the region compare favorably with national indices.

All of these factors were considered in preparing the City of Adrian's budget for the 2007-08 fiscal year. Also during the current fiscal year, unreserved fund balance in the General Fund stands at \$5,319,717 or forty-six (44%) percent of total general fund expenditures. For the first time in four years, the City of Adrian has not appropriated any funds from the Unrestricted Fund Balance amount for spending in the ensuing fiscal year budget, compared with \$131,327 last year and \$375,342 the year before that. With an overall tax decrease of .0873 mills, good stewardship has been reflected in the management of City finances.

Water and Sewer Rates were increased by the City Commission (Resolution No. R07-056 dated March 5, 2007) effective April 1, 2007, reflecting the need to fund increased debt service for infrastructure improvements to both systems, as well as compensating for the anticipated sales volume decrease attributable to Madison Township's construction of a redundant waste water treatment system that is diverting flows from the Gus Harrison State Correctional Facility. For a typical customer using eight units (100cf), which is approximately 6,000 gallons per month, the water bill increased \$2.00 per month and the sewer bill increased \$3.78 per month.

Requests for Information

This financial report is designed to provide a general overview of the City of Adrian's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Office of the Finance Director, 100 E. Church Street, Adrian, Michigan 49221 or call 517-264-4824 or e-mail: jpardee@ci.adrian.mi.us

June 30, 2007
With Comparative Totals for June 30, 2006

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	<u>PRIMARY GOVERNMENT</u>		<u>COMPONENT UNITS</u>		
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Totals</u>	<u>Downtown Development Authority</u>	<u>Local Development Finance Authority</u>
			<u>2007</u>	<u>2006</u>	
LIABILITIES:					
Accounts payable and other current liabilities	\$ 897,675	\$ 540,169	\$ 1,437,844	\$ 1,333,792	\$ 110,179
Accrued interest payable	27,014		27,014	31,167	41,775
Due to primary government					7,022
Due to component unit	7,800		7,800		
Due to other governments		6,543	6,543	8,183	
Unearned revenue	46,387		46,387	30,096	
Liabilities paid from restricted assets		97,374	97,374	101,549	
Noncurrent liabilities:					
Due within one year	117,225	752,678	869,903	1,042,982	85,000
Due in more than one year	1,068,550	20,693,428	21,761,978	16,814,372	320,000
Total liabilities	2,164,651	22,090,192	24,254,843	19,362,141	563,976
NET ASSETS:					
Invested in capital assets, net					
related debt	24,323,513	27,846,396	52,169,909	51,599,667	236,494
Reserved for:					
Public safety	208,383		208,383	139,843	
Community/economic development	560,431		560,431	445,374	
Highways and streets	2,922,977		2,922,977	2,217,552	
Debt service		1,630,058	1,630,058	1,417,981	95
Endowment:					
Expendable	562,878		562,878	66,850	
Nonexpendable	95,342		95,342	80,627	
Perpetual care	802,455		802,455	772,046	
Other purposes	46,798		46,798	146,755	
Unrestricted	6,135,998	2,001,967	8,137,965	7,595,399	353,616
Total net assets	\$ 35,658,775	\$ 31,478,421	\$ 67,137,196	\$ 64,482,094	\$ 590,205
					\$ 4,142

(PAGE 1 OF 2)
CITY OF ADRIAN, MICHIGAN

STATEMENT OF ACTIVITIES

For Fiscal Year Ended June 30, 2007
With Comparative Totals for Fiscal Year Ended June 30, 2006

PROGRAM REVENUES

	<u>Expenses</u>	<u>Charges For Services</u>	<u>Operating Grants And Contributions</u>	<u>Capital Grants And Contributions</u>
Functions/Programs				
Primary Government:				
Governmental activities:				
General government	\$ 2,511,362	\$ 1,039,539	\$	\$
Public safety	5,011,563	437,977	162,538	
Public works	1,169,030	1,963		
Culture and recreation	1,871,000	474,798	1,669,298	
Other services	2,105,016	248,438	64,108	
Community/economic development	543,450	365,518	60,032	262,194
Highways, streets, and bridges	1,153,185	117,127		765,325
Interest on long term debt	<u>27,014</u>			
Total governmental activities	<u>14,391,620</u>	<u>2,685,360</u>	<u>1,955,976</u>	<u>1,027,519</u>
Business-type Activities:				
Wastewater system	3,788,575	3,461,125		
Water system	2,984,185	3,273,365		
Dial-A-Ride system	487,901	99,806	234,326	74,819
Automobile parking system	91,961	110,481	5,000	
Storm water utility	<u>234,562</u>	<u>280,598</u>		
Total business-type activities	<u>7,587,184</u>	<u>7,225,375</u>	<u>239,326</u>	<u>74,819</u>
Total primary government	<u>\$ 21,978,804</u>	<u>\$ 9,910,735</u>	<u>\$ 2,195,302</u>	<u>\$ 1,102,338</u>
Component Units:				
Downtown Development Authority	\$ (279,275)	\$	\$	\$
Local Development Finance Authority	<u>(121,676)</u>			
Total component units	<u>\$ (400,951)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
General Revenues:				
Property taxes				
Sales tax				
Motor vehicle fuel tax				
Grants and contributions not restricted to specific programs				
Unrestricted investment earnings				
Transfers				
Total general revenues and transfers				
Change in net assets				
Net assets – beginning of year				
Net assets – end of year				

The notes to the financial statements are an integral part of this statement.

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CITY OF ADRIAN, MICHIGAN

STATEMENT OF ACTIVITIES

For Fiscal Year Ended June 30, 2007
With Comparative Totals for Fiscal Year Ended June 30, 2006

NET (EXPENSE) REVENUE AND
CHANGES IN NET ASSETS

PRIMARY GOVERNMENT				COMPONENT UNITS	
Governmental Activities	Business-type Activities	Totals		Downtown Development Authority	Local Development Finance Authority
		2007	2006		
\$ (1,471,823)		\$ (1,471,823)	\$ (1,472,721)	\$	\$
(4,411,048)		(4,411,048)	(4,317,679)		
(1,167,067)		(1,167,067)	(1,094,186)		
273,096		273,096	(1,296,926)		
(1,792,470)		(1,792,470)	(1,459,027)		
144,294		144,294	(130,086)		
(270,733)		(270,733)	(2,223,964)		
(27,014)		(27,014)	(3,112)		
(8,722,765)	-	(8,722,765)	(11,997,701)	-	-
	(327,450)	(327,450)	(1,019,419)		
	289,180	289,180	(14,220)		
	(78,950)	(78,950)	(28,684)		
	23,520	23,520	(69,558)		
	46,036	46,036	53,991		
-	(47,664)	(47,664)	(1,077,890)	-	-
<u>\$ (8,722,765)</u>	<u>\$ (47,664)</u>	<u>\$ (8,770,429)</u>	<u>\$ (13,075,591)</u>	<u>\$ -</u>	<u>\$ -</u>
\$	\$			\$ (279,275)	\$
					(121,676)
<u>\$ -</u>	<u>\$ -</u>			<u>\$ (279,275)</u>	<u>\$ (121,676)</u>
7,070,336		7,070,336		292,188	123,735
2,383,155		2,383,155			
1,299,759		1,299,759			
13,336		13,336		16,182	
549,528	109,417	658,945		15,183	1,744
(107,366)	107,366	-			
11,208,748	216,783	11,425,531	11,088,378	323,553	125,479
2,485,983	169,119	2,655,102	(1,987,213)	44,278	3,803
33,172,792	31,309,302	64,482,094	66,469,307	545,927	339
<u>\$ 35,658,775</u>	<u>\$ 31,478,421</u>	<u>\$ 67,137,196</u>	<u>\$ 64,482,094</u>	<u>\$ 590,205</u>	<u>\$ 4,142</u>

CITY OF ADRIAN, MICHIGAN

BALANCE SHEET

GOVERNMENTAL FUNDS

June 30, 2007
With Comparative Totals for June 30, 2006

ASSETS	General	Major Streets	Local Streets	Fee And Public-Purpose	Other Governmental Funds	Totals Governmental Funds
Cash and cash equivalents	\$ 5,879,702	\$ 892,717	\$ 428,766	\$ 45,081	\$ 587,381	\$ 1,953,945
Investments at cost		1,598,190		21,411	1,497,584	8,996,887
Receivables:						
Accounts	145,736			380,774		538,602
Loans					12,092	503,231
Due from other funds	590,961				217,967	176,759
Due from component units	890				22,659	613,620
Due from other governments	318,827	10,309			890	671,457
Inventories:						258
Land held for resale, at cost					329,136	308,258
Supplies at cost	139,740				7,499	7,499
Prepaid cost	36,896				139,740	149,078
					36,896	35,495
Total assets	\$ 7,112,752	\$ 2,501,216	\$ 428,766	\$ 447,266	\$ 2,345,182	\$ 12,835,182
						\$ 11,205,371
LIABILITIES AND FUND BALANCE						
Liabilities:						
Vouchers payable	558,024	17,397	3,572		11,520	590,513
Accrued liabilities	294,214	930	4,476		4,679	304,299
Due to other funds	100,665	34,021	32,121	382,612	13,982	563,401
Due to component units	7,800					7,800
Unearned revenue	28,531			17,856		46,387
						30,096
Total liabilities	989,234	52,348	40,169	400,468	30,181	1,512,400
						1,292,158
Fund Balances:						
Reserved For:						
Perpetual care					794,956	794,956
Endowment					95,342	80,627
Loans					217,967	176,759
Inventories and prepayments	176,636				7,499	192,072
Encumbrances	627,165	802,464	297,181		6,556	914,353
Unreserved, Reported In:						
General Fund – Designated	4,015,000				4,015,000	3,406,734
General Fund – Undesignated	1,304,717				1,304,717	2,152,082
Special Revenue Funds – Undesignated		1,646,404	91,416	46,798	629,803	2,159,189
Endowment – Undesignated					562,878	66,850
Total fund balances	6,123,518	2,448,868	388,597	46,798	2,315,001	9,913,213
Total liabilities and fund balance	\$ 7,112,752	\$ 2,501,216	\$ 428,766	\$ 447,266	\$ 2,345,182	\$ 12,835,182
						\$ 11,205,371

CITY OF ADRIAN, MICHIGAN

**RECONCILIATIONS OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS**

June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	\$ 25,094,701	\$ 24,160,671
Personal property taxes receivable are not expected to be collected in the current period and, therefore, deferred in governmental funds (presented net of allowance for uncollectibles).	8,665	15,000
Accrued interest payable on long term debt is recognized in governmental funds when paid and not when accrued.	(27,014)	(31,167)
Long-term portion of accrued sick and vacation pay liability are not due and payable in the current period and, therefore, are not reported in the governmental funds.	(414,587)	(313,360)
Bond and loan indebtedness are recognized in the governmental funds when paid and not when accrued.	(771,188)	(884,260)
Internal Service Fund (Information Technology Fund) is used by management to charge the costs of management information systems to individual funds. The assets and liabilities of the Internal Service Fund are included in governmental activities in the Statement of Net Assets.	<u>445,416</u>	<u>312,695</u>
Net differences	24,335,993	23,259,579
Total fund balance in governmental funds	<u>11,322,782</u>	<u>9,913,213</u>
Total net assets of governmental activities	<u>\$ 35,658,775</u>	<u>\$ 33,172,792</u>

The notes to the financial statements are an integral part of this statement.

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

**For Fiscal Year Ended June 30, 2007
With Comparative Totals for Fiscal Year Ended June 30, 2006**

	<u>General</u>	<u>Major Streets</u>	<u>Local Streets</u>	<u>Fee And Public-Purpose</u>	<u>Other Governmental Funds</u>	<u>Governmental Funds 2007</u>	<u>Totals Governmental Funds 2006</u>
Revenues:							
Taxes	\$ 6,539,627	\$	\$	\$	\$ 436,671	\$ 6,976,298	\$ 6,659,027
Other tax related revenue	100,373					100,373	210,360
Licenses and permits	279,866					279,866	486,327
Intergovernmental – Federal					444,147	444,147	281,485
Intergovernmental – State	2,543,182	1,683,775	389,361			4,616,318	3,953,373
Charges for services	74,099					74,099	64,380
Use and admission charges	340,765					340,765	363,084
Fines and fees	248,759					248,759	290,659
Investment earnings	377,447	86,135	688	1,775	83,483	549,528	358,274
Fee Trust – for beautification purposes				1,173,270		1,173,270	656,057
Other	570,031			56,021	294,010	920,062	705,528
Special assessments			109,075			109,075	84,398
Contribution from DDA	10,000				2,000	12,000	42,870
Public contributions					496,028	496,028	
Administrative fees					129,097	129,097	
Total revenues	<u>11,084,149</u>	<u>1,769,910</u>	<u>499,124</u>	<u>1,231,066</u>	<u>1,885,436</u>	<u>16,469,685</u>	<u>14,155,822</u>
Expenditures:							
Current:							
General government	2,056,289					2,056,289	2,069,689
Public safety	5,099,140				98,608	5,197,748	4,833,758
Public works	1,032,473					1,032,473	965,312
Culture and recreation	3,078,788					3,078,788	3,093,654
Other services	614,641			157,753	680	773,074	359,417
Community/Economic Development					537,168	537,168	595,793
Highways, streets, and bridges		1,233,834	775,303			2,009,137	1,867,403
Debt Service:							
Principal retirement	113,072					113,072	728,100
Interest and fiscal charges	31,167					31,167	41,314
Total expenditures	<u>12,025,570</u>	<u>1,233,834</u>	<u>775,303</u>	<u>157,753</u>	<u>636,456</u>	<u>14,828,916</u>	<u>14,554,440</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(941,421)</u>	<u>536,076</u>	<u>(276,179)</u>	<u>1,073,313</u>	<u>1,248,980</u>	<u>1,640,769</u>	<u>(398,618)</u>

	<u>General</u>	<u>Major Streets</u>	<u>Local Streets</u>	<u>Fee And Public-Purpose</u>	<u>Other Governmental Funds</u>	<u>Totals Governmental Funds 2007</u>	<u>2006</u>
Other financing sources (uses):							
Transfers in	\$ 1,263,685	\$	\$ 584,961	\$	\$ 11,712	\$ 1,860,358	\$ 1,441,182
Transfers out	(242,912)	(189,961)		(1,173,270)	(485,415)	(2,091,558)	(1,567,751)
Total other financing sources (uses)	1,020,773	(189,961)	584,961	(1,173,270)	(473,703)	(231,200)	(126,569)
Net change in fund balance	79,352	346,115	308,782	(99,957)	775,277	1,409,569	(525,187)
Fund balances at beginning of year	6,044,166	2,102,753	79,815	146,755	1,539,724	9,913,213	10,438,400
Fund balances at end of year	\$ 6,123,518	\$ 2,448,868	\$ 388,597	\$ 46,798	\$ 2,315,001	\$ 11,322,782	\$ 9,913,213

CITY OF ADRIAN, MICHIGAN

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES**

For Fiscal Years Ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Amounts reported for governmental activities in the Statement of Revenues, Expenditures and Changes in Fund Balances are different because:		
Net change in fund balance –	\$ 1,409,569	\$ (525,187)
Government funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period. (Total depreciation \$1,554,997 less total capital outlay (\$2,489,028).	934,031	(1,477,938)
Revenue in the Statement of Activities that do not provide current financial resources are not reported as revenue in the governmental funds – net effect on recognizing accrued personal property taxes.	(6,335)	
This issuance of long-term debt (e.g. bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This amount is the This amount is the net effect of these differences in the treatment of long-term debt and related items.		
Debt incurred during current year		
Less: Principal repayment	<u>113,072</u>	<u>728,101</u>
Net	<u>113,072</u>	<u>728,101</u>
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		
Accrued interest – net effect	4,153	38,202
Accrued long-term sick and vacation – net effect	(101,228)	(49,731)
Internal Service Fund is used by management to charge the costs of management information systems to individual funds.	<u>132,721</u>	<u>188,891</u>
Change in net assets in governmental activities	<u>\$ 2,485,983</u>	<u>\$ (1,097,662)</u>

The notes to the financial statements are an integral part of this statement.

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CITY OF ADRIAN, MICHIGAN

GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL

For Fiscal Year Ended June 30, 2007

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Taxes	\$ 6,708,928	\$ 6,766,928	\$ 6,539,627	\$ (227,301)
Other tax related revenue	81,000	81,000	100,373	19,373
Licenses and permits	235,900	235,900	279,866	43,966
Intergovernmental	2,448,000	2,541,665	2,543,182	1,517
Charges for services	62,900	85,200	74,099	(11,101)
Uses and admission charges	338,800	338,800	340,765	1,965
Fines and fees	295,000	275,000	248,759	(26,241)
Investment earnings	250,000	300,000	377,447	77,447
Miscellaneous	560,527	1,525,810	570,031	(955,779)
Contributions from DDA	<u>10,000</u>	<u>10,000</u>	<u>10,000</u>	<u>-</u>
Total revenues	<u>10,991,055</u>	<u>12,160,303</u>	<u>11,084,149</u>	<u>(1,076,154)</u>
Expenditures:				
Current:				
General Government:				
City Commission	146,409	151,224	140,829	10,395
City Administrator	224,446	226,029	213,694	12,335
Election Department	25,800	29,800	20,722	9,078
Finance Department	328,700	328,964	335,147	(6,183)
City Assessor	305,178	305,178	266,456	38,722
City Attorney	148,959	149,592	146,003	3,589
City Clerk	153,064	153,686	168,561	(14,875)
Human Resources	245,514	268,514	180,386	88,128
City Hall	150,000	161,110	171,234	(10,124)
Cemetery	<u>397,740</u>	<u>407,195</u>	<u>413,257</u>	<u>(6,062)</u>
Total general government	<u>2,125,810</u>	<u>2,181,292</u>	<u>2,056,289</u>	<u>125,003</u>
Public Safety:				
Police Department	2,905,978	2,948,850	2,932,347	16,503
Fire Department	1,514,060	1,861,392	1,676,944	184,448
Inspection Department	<u>492,935</u>	<u>501,789</u>	<u>489,849</u>	<u>11,940</u>
Total public safety	<u>4,912,973</u>	<u>5,312,031</u>	<u>5,099,140</u>	<u>212,891</u>
Total expenditures carried forward	<u>7,038,783</u>	<u>7,493,323</u>	<u>7,155,429</u>	<u>337,894</u>

The notes to the financial statements are an integral part of this statement.

(Page 2 of 3)
CITY OF ADRIAN, MICHIGAN

GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL

For Fiscal Year Ended June 30, 2007

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Total expenditures carried forward	<u>7,038,783</u>	<u>7,493,323</u>	<u>7,155,429</u>	<u>337,894</u>
Public Works:				
Department of Public Works	238,667	238,825	284,691	(45,866)
Stores - Central Supply			1,646	(1,646)
Motor Vehicle Pool	(61,400)	(55,671)	(192,069)	136,398
Engineering	92,198	94,257	145,567	(51,310)
Street Lighting	129,100	138,100	132,241	5,859
Winter Maintenance	2,000	2,000		2,000
Waste Collection and Disposal	<u>748,500</u>	<u>708,577</u>	<u>660,397</u>	<u>48,180</u>
Total public works	<u>1,149,065</u>	<u>1,126,088</u>	<u>1,032,473</u>	<u>93,615</u>
Culture and Recreation:				
Recreation Department	1,026,479	1,171,380	995,244	176,136
Parks and Forestry Department	535,843	557,264	491,736	65,528
Parks and Forestry – Heritage Park	152,875	164,225	152,584	11,641
Fee Estate Maintenance	677,205	692,256	678,689	13,567
Library	<u>751,692</u>	<u>789,258</u>	<u>760,535</u>	<u>28,723</u>
Total culture and recreation	<u>3,144,094</u>	<u>3,374,383</u>	<u>3,078,788</u>	<u>295,595</u>
Other Services:				
Planning Commission	30,700	33,770	30,734	3,036
Beautification – Parks (Fee)	167,000	1,000,391	495,547	504,844
Park Capital	160,500	302,968	36,281	266,687
Other Projects	27,248	60,436	24,379	36,057
Other	<u>83,563</u>	<u>122,677</u>	<u>27,700</u>	<u>94,977</u>
Total other services	<u>469,011</u>	<u>1,520,242</u>	<u>614,641</u>	<u>905,601</u>
Debt Service:				
Principal	113,072	143,072	113,072	30,000
Interest	<u>31,167</u>	<u>31,167</u>	<u>31,167</u>	-
Total debt service	<u>144,239</u>	<u>174,239</u>	<u>144,239</u>	<u>30,000</u>
Total expenditures	<u>11,945,192</u>	<u>13,688,275</u>	<u>12,025,570</u>	<u>1,662,705</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(954,137)</u>	<u>(1,527,972)</u>	<u>(941,421)</u>	<u>586,551</u>

The notes to the financial statements are an integral part of this statement.

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CITY OF ADRIAN, MICHIGAN

GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL

For Fiscal Year Ended June 30, 2007

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Other financing sources (uses):				
Transfers in	1,083,003	1,770,330	1,263,685	(506,654)
Transfers out	<u>(128,866)</u>	<u>(242,367)</u>	<u>(242,912)</u>	<u>(545)</u>
Total other financing sources (uses)	<u>954,137</u>	<u>1,527,972</u>	<u>1,020,773</u>	<u>(507,199)</u>
Net change in fund balance	-	-	79,352	79,352
Fund balance at beginning of year	<u>6,044,166</u>	<u>6,044,166</u>	<u>6,044,166</u>	<u></u>
Fund balance at end of year	<u>\$ 6,044,166</u>	<u>\$ 6,044,166</u>	<u>\$ 6,123,518</u>	<u>\$ 79,352</u>

The notes to the financial statements are an integral part of this statement.

CITY OF ADRIAN, MICHIGAN

MAJOR STREETS SPECIAL REVENUE FUND

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL**

For Fiscal Year Ended June 30, 2007

	<u>Budgeted Amounts</u>			<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>	<u>Actual Amounts</u>	
Revenues:				
Intergovernmental – State	\$ 1,054,000	\$ 1,529,000	\$ 1,683,775	\$ 154,775
Investment earnings	20,000	20,000	86,135	66,135
Other	<u>136,887</u>	<u>1,325,640</u>	<u> </u>	<u>(1,325,640)</u>
Total revenues	<u>1,210,887</u>	<u>2,874,640</u>	<u>1,769,910</u>	<u>(1,104,730)</u>
Expenditures:				
Highways, streets, and bridges:				
Street construction	482,507	2,004,969	697,506	1,307,463
Routine maintenance – streets	160,475	160,475	104,467	56,008
Routine maintenance – bridges	20,000	20,000	16,005	3,995
Maintenance – State trunklines	62,789	62,789	57,780	5,009
Traffic service	87,930	94,680	132,587	(37,907)
Winter maintenance	96,966	96,966	66,545	30,421
Administration	61,365	61,365	38,619	22,746
Non-motorized transportation	<u>48,894</u>	<u>183,435</u>	<u>120,325</u>	<u>63,110</u>
Total expenditures	<u>1,020,926</u>	<u>2,684,679</u>	<u>1,233,834</u>	<u>1,450,845</u>
Excess (deficiency) of revenues over (under) expenditures	<u>189,961</u>	<u>189,961</u>	<u>536,076</u>	<u>346,115</u>
Other financing sources (uses):				
Transfers out	<u>(189,961)</u>	<u>(189,961)</u>	<u>(189,961)</u>	<u>-</u>
Total other financing sources (uses)	<u>(189,961)</u>	<u>(189,961)</u>	<u>(189,961)</u>	<u>-</u>
Net change in fund balance	-	-	346,115	346,115
Fund balance – beginning of year	<u>2,102,753</u>	<u>2,102,753</u>	<u>2,102,753</u>	<u> </u>
Fund balance – end of year	<u>\$ 2,102,753</u>	<u>\$ 2,102,753</u>	<u>\$ 2,448,868</u>	<u>\$ 346,115</u>

The notes to the financial statements are an integral part of this statement.

CITY OF ADRIAN, MICHIGAN

LOCAL STREETS SPECIAL REVENUE FUND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL

For Fiscal Year Ended June 30, 2007

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Intergovernmental – State	\$ 402,600	\$ 402,600	\$ 389,361	\$ (13,239)
Special assessment	23,295	109,295	109,075	(220)
Investment earnings	100	100	688	588
Other		317,572		(317,572)
Total revenues	<u>425,995</u>	<u>829,567</u>	<u>499,124</u>	<u>(330,443)</u>
Expenditures:				
Highways, streets, and bridges:				
Sidewalks	64,600	64,600	19,644	44,956
Street construction	533,684	904,535	368,735	535,800
Routine maintenance – streets	287,522	320,243	271,317	48,926
Routine maintenance – bridges	813	813		813
Traffic service	44,824	44,824	25,794	19,030
Winter maintenance	81,375	81,375	48,094	33,281
Administration	47,207	47,207	41,719	5,488
Total expenditures	<u>1,060,025</u>	<u>1,463,597</u>	<u>775,303</u>	<u>688,294</u>
Deficiency of revenues under expenditures	<u>(634,030)</u>	<u>(634,030)</u>	<u>(276,179)</u>	<u>357,851</u>
Other financing sources (uses):				
Transfers in	<u>634,030</u>	<u>634,030</u>	<u>584,961</u>	<u>(49,069)</u>
Total other financing sources (uses)	<u>634,030</u>	<u>634,030</u>	<u>584,961</u>	<u>(49,069)</u>
Net change in fund balance	-	-	308,782	308,782
Fund balance – beginning of year	<u>79,815</u>	<u>79,815</u>	<u>79,815</u>	
Fund balance – end of year	<u>\$ 79,815</u>	<u>\$ 79,815</u>	<u>\$ 388,597</u>	<u>\$ 308,782</u>

The notes to the financial statements are an integral part of this statement.

(PAGE 1 OF 2)
CITY OF ADRIAN, MICHIGAN

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS

June 30, 2007
With Comparative Totals for June 30, 2006

	<u>BUSINESS-TYPE ACTIVITIES – ENTERPRISE FUNDS</u>					<u>GOVERNMENTAL ACTIVITIES</u>
ASSETS:	<u>Wastewater System</u>	<u>Water System</u>	<u>Other Enterprise Funds</u>	<u>Totals Proprietary Funds</u> <u>2007</u>	<u>2006</u>	<u>Information Technology</u>
Current assets:						
Cash and cash equivalents	\$ 181,278	\$ 18,753	\$ 228,607	\$ 428,638	\$ 946,341	\$ 435,113
Investments					121,567	
Receivables:						
Accounts	534,552	545,864	707	1,081,123	684,010	
Special assessments			491,171	491,171	409,804	
Deferred assessments	68,501	22,629		91,130	91,130	
State of Michigan – SRF	402,410			402,410		
Due from other funds		233	77,900	78,133	55,900	12,034
Due from other governments			46,204	46,204	45,158	
Due to component unit			5,000	5,000		1,132
Inventories		168,925		168,925	143,030	
Prepaid expense	<u>3,134</u>	<u>7,774</u>		<u>10,908</u>	<u>10,035</u>	
	1,189,875	764,178	849,589	2,803,642	2,506,975	448,279
Restricted assets available for current liabilities:						
Customer deposit – cash		17,155		17,155	15,580	
Bond interest and redemption account - investment	410,488			410,488	328,450	
Bond interest and redemption account – cash	<u>20,667</u>	<u>211,156</u>		<u>231,823</u>	<u>210,875</u>	
Total current assets	<u>1,621,030</u>	<u>992,489</u>	<u>849,589</u>	<u>3,463,108</u>	<u>3,061,880</u>	<u>448,279</u>
Noncurrent assets:						
Restricted investments						
Bond reserve - cash		62,664		62,664	36,965	
Bond reserve - investment	290,934	114,368		405,302	327,660	
Replacement account – Investment	<u>500,000</u>	<u>100,000</u>		<u>600,000</u>	<u>600,000</u>	
Total noncurrent restricted assets	<u>790,934</u>	<u>277,032</u>	<u>-</u>	<u>1,067,966</u>	<u>964,625</u>	<u>-</u>
Capital assets:						
Land	163,164	102,928	661,368	927,460	904,592	
Building			86,864	86,864		
Utility systems	36,688,238	22,671,864	2,380,243	61,740,345	62,116,767	
Land improvements			1,582,008	1,582,008	1,582,008	
Equipment			682,607	682,607	717,521	
Less: Accumulated depreciation	(15,098,566)	(7,980,139)	(2,145,819)	(25,224,524)	(24,574,278)	
Construction in progress	<u>8,665,772</u>	<u>717,393</u>		<u>9,383,165</u>	<u>4,094,676</u>	
Net capital assets	<u>30,418,608</u>	<u>15,512,046</u>	<u>3,247,271</u>	<u>49,177,925</u>	<u>44,841,286</u>	<u>-</u>
Total noncurrent assets	<u>31,209,542</u>	<u>15,789,078</u>	<u>3,247,271</u>	<u>50,245,891</u>	<u>45,805,911</u>	<u>-</u>
Total assets	<u>\$ 32,830,572</u>	<u>\$ 16,781,567</u>	<u>\$ 4,096,860</u>	<u>\$ 53,708,999</u>	<u>\$ 48,867,791</u>	<u>\$ 448,279</u>

The notes to the financial statements are an integral part of this statement.

(PAGE 2 OF 2)
CITY OF ADRIAN, MICHIGAN

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS

June 30, 2007
With Comparative Totals for June 30, 2006

	<u>BUSINESS-TYPE ACTIVITIES – ENTERPRISE FUNDS</u>					<u>GOVERNMENTAL ACTIVITIES</u>
	<u>Wastewater System</u>	<u>Water System</u>	<u>Other Enterprise Funds</u>	<u>Totals Proprietary Funds 2007</u>	<u>2006</u>	<u>Information Technology</u>
LIABILITIES:						
Current liabilities:						
Vouchers payable	\$ 429,612	\$ 74,320	\$ 10,527	\$ 514,459	\$ 530,025	\$ 2,863
Accrued liabilities	11,764	12,548	1,398	25,710	26,203	
Due to other funds	30,753	38,847	70,786	140,386	232,795	
Due to other governments			6,543	6,543	8,183	
General obligation bonds payable – current					100,000	
DWRF/SRF bonds payable – Current	<u>460,000</u>	<u>240,000</u>		<u>700,000</u>	<u>600,000</u>	
	932,129	365,715	89,254	1,387,098	1,497,206	2,863
Current liabilities payable from restricted assets:						
Customer deposits payable		17,155		17,155	15,580	
Accrued interest	<u>49,063</u>	<u>31,156</u>		<u>80,219</u>	<u>85,969</u>	
Total current liabilities	<u>981,192</u>	<u>414,026</u>	<u>89,254</u>	<u>1,484,472</u>	<u>1,598,755</u>	<u>2,863</u>
Noncurrent liabilities:						
Accrued sick and vacation pay	37,297	77,280		114,577	141,703	
General obligation bonds						
DWRF Bonds	7,475,000	4,745,000		12,220,000	12,835,000	
SRF Bonds	<u>8,411,529</u>			<u>8,411,529</u>	<u>2,983,031</u>	
Total noncurrent liabilities	<u>15,923,826</u>	<u>4,822,280</u>		<u>20,746,106</u>	<u>15,959,734</u>	<u>-</u>
Total liabilities	<u>16,905,018</u>	<u>5,236,306</u>	<u>89,254</u>	<u>22,230,578</u>	<u>17,558,489</u>	<u>2,863</u>
NET ASSETS						
Invested in capital assets, net of related debt	14,072,079	10,527,046	3,247,271	27,846,396	28,323,256	
Restricted for debt service	673,026	357,032		1,030,058	817,981	
Restricted for replacement	500,000	100,000		600,000	600,000	
Unrestricted	<u>680,449</u>	<u>561,183</u>	<u>760,335</u>	<u>2,001,967</u>	<u>1,568,065</u>	<u>445,416</u>
Total net assets	<u>\$ 15,925,554</u>	<u>11,545,261</u>	<u>\$ 4,007,606</u>	<u>\$ 31,478,421</u>	<u>\$ 31,309,302</u>	<u>\$ 445,416</u>

The notes to the financial statements are an integral part of this statement.

CITY OF ADRIAN, MICHIGAN

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS**

**For Fiscal Year Ended June 30, 2007
With Comparative Totals for Fiscal Year Ended June 30, 2006**

	<u>BUSINESS-TYPE ACTIVITIES – ENTERPRISE FUNDS</u>					<u>GOVERNMENTAL ACTIVITIES</u>
	<u>Wastewater System</u>	<u>Water System</u>	<u>Other Enterprise Funds</u>	<u>Totals Proprietary Funds 2007</u>	<u>2006</u>	<u>Information Technology</u>
Operating revenues:						
Charges for services	\$ 3,392,142	\$ 2,913,774	\$ 456,146	\$ 6,762,062	\$ 5,724,677	\$ 521,147
Special assessments	50,988	39,022	26,045	116,075		
Miscellaneous revenues	<u>17,995</u>	<u>320,569</u>	<u>8,674</u>	<u>347,238</u>	<u>313,859</u>	<u>472</u>
Total operating revenues	<u>3,461,125</u>	<u>3,273,365</u>	<u>490,885</u>	<u>7,225,375</u>	<u>6,038,536</u>	<u>521,619</u>
Operating expenses:						
Cost of services	2,605,639	2,387,182	695,097	5,687,918	5,559,730	512,732
Depreciation	<u>984,405</u>	<u>470,909</u>	<u>118,627</u>	<u>1,573,941</u>	<u>1,552,691</u>	
Total operating expenses	<u>3,590,044</u>	<u>2,858,091</u>	<u>813,724</u>	<u>7,261,859</u>	<u>7,112,421</u>	<u>512,732</u>
Operating income (loss)	<u>(128,919)</u>	<u>415,274</u>	<u>(322,839)</u>	<u>(36,484)</u>	<u>(1,073,885)</u>	<u>8,887</u>
Nonoperating revenues						
expenses:						
Intergovernmental – State			162,521	162,521	170,310	
Intergovernmental – Federal			71,805	71,805	57,729	
Interest revenue	67,909	18,376	26,463	112,748	67,409	
Interest expense	(198,531)	(126,094)	(4,031)	(328,656)	(342,976)	
Contribution from DDA			<u>5,000</u>	<u>5,000</u>		
Total nonoperating revenues (expenses)	<u>(130,622)</u>	<u>(107,718)</u>	<u>261,758</u>	<u>23,418</u>	<u>(47,528)</u>	<u>-</u>
Income (loss) before contributions and transfers	(259,541)	307,556	(61,081)	(13,066)	(1,121,413)	8,887
Capital contribution			74,819	74,819	110,932	
Transfers in			110,411	110,411	148,285	123,834
Transfers out		<u>(3,045)</u>		<u>(3,045)</u>	<u>(27,355)</u>	
Change in net assets	(259,541)	304,511	124,149	169,119	(889,551)	132,721
Total net assets – beginning of year	<u>16,185,095</u>	<u>11,240,750</u>	<u>3,883,457</u>	<u>31,309,302</u>	<u>32,198,853</u>	<u>312,695</u>
Total net assets – end of year	<u>\$ 15,925,554</u>	<u>\$ 11,545,261</u>	<u>\$ 4,007,606</u>	<u>\$ 31,478,421</u>	<u>\$ 31,309,302</u>	<u>\$ 445,416</u>

The notes to the financial statements are an integral part of this statement.

(PAGE 1 OF 2)
CITY OF ADRIAN, MICHIGAN

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

For Fiscal Year Ended June 30, 2007
With Comparative Totals for Fiscal Year Ended June 30, 2006

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

	<u>BUSINESS-TYPE ACTIVITIES – ENTERPRISE FUNDS</u>					<u>GOVERNMENTAL ACTIVITIES</u>
	<u>Wastewater System</u>	<u>Water System</u>	<u>Other Enterprise Funds</u>	<u>Totals Proprietary Funds 2007</u>	<u>2006</u>	<u>Information Technology</u>
Cash flows from operating activities:						
Cash received from customers	\$ 2,865,022	\$ 3,071,674	\$ 463,498	\$ 6,400,194	\$ 6,349,524	\$ 516,223
Cash paid to suppliers	(1,840,534)	(1,372,062)	(357,169)	(3,569,765)	(3,724,754)	(528,703)
Cash paid to employees	(806,939)	(1,000,330)	(308,955)	(2,116,224)	(2,072,645)	
Net cash provided by (used in) operating activities	217,549	699,282	(202,626)	714,205	552,125	(11,480)
Cash flows from noncapital financing activities:						
Grant received – Federal			75,836	75,836	68,110	
Grant received – State			157,444	157,444	186,609	
Transfers from Other Fund			25,507	25,507	207,808	123,834
Contribution from DDA			5,000	5,000		
Transfer to Information Tech.		(3,045)		(3,045)		
Special assessment revenue						
Provided to other funds			(199,085)	(199,085)	(84,398)	
Net cash provided by noncapital financing activities	-	(3,045)	64,702	61,657	378,129	123,834
Cash flows from capital and related financing activities:						
Acquisition and construction of capital assets	(5,419,908)	(415,852)		(5,835,760)	(4,045,864)	
Principal paid on general obligation bonds			(100,000)	(100,000)	(100,000)	
Interest paid and agent fees on general obligation bonds			(2,700)	(2,700)	(217,261)	
Special assessments			36,689	36,689	82,683	
Principal paid on DWRF Bonds	(365,000)	(235,000)		(600,000)	(580,000)	
Interest paid on DWRF Bonds	(200,812)	(127,563)		(328,375)	(133,312)	
Bond proceeds – SRF Bonds	5,513,498			5,513,498	2,983,031	
Net cash provided by (used in) capital and related financing activities	(472,222)	(778,415)	(66,011)	(1,316,648)	(2,010,723)	-
Cash flows from investing activities:						
Investment securities purchased	(28,405)	(9,708)		(38,113)		
Proceeds on matured investment Securities					1,213,986	
Interest income	67,909	18,376	23,132	109,417	67,409	
Net cash provided by investing activities	39,504	8,668	23,132	71,304	1,281,395	-

The notes to the financial statements are an integral part of this statement.

(PAGE 2 OF 2)
CITY OF ADRIAN, MICHIGAN

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

For Fiscal Year Ended June 30, 2007
With Comparative Totals for Fiscal Year Ended June 30, 2006

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

	<u>BUSINESS-TYPE ACTIVITIES – ENTERPRISE FUNDS</u>					<u>GOVERNMENTAL ACTIVITIES</u>
	<u>Wastewater System</u>	<u>Water System</u>	<u>Other Enterprise Funds</u>	<u>Totals Proprietary Funds 2007</u>	<u>2006</u>	<u>Information Technology</u>
Net increase (decrease) in cash and cash equivalents	(215,169)	(73,510)	(180,803)	(469,482)	200,926	112,354
Cash and cash equivalents at beginning of year including \$261,420 and \$2,000 for the Waste System and the Storm Water Utility Funds, respectively						
Reported in restricted funds	<u>417,114</u>	<u>383,238</u>	<u>409,410</u>	<u>1,209,762</u>	<u>1,008,836</u>	<u>322,759</u>
Cash and cash equivalents at end of year (including \$20,667 and \$290,975 for the Wastewater System and the Water System Funds, respectively reported in Restricted Funds)	<u>\$ 201,945</u>	<u>\$ 309,728</u>	<u>\$ 228,607</u>	<u>\$ 740,280</u>	<u>\$ 1,209,762</u>	<u>\$ 435,113</u>
Non cash investing capital and financing activities						
Contributions of capital assets from State			74,819	74,819	110,932	

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH
PROVIDED BY (USED IN) OPERATING ACTIVITIES

Operating income (loss)	<u>\$ (128,919)</u>	<u>\$ 415,274</u>	<u>\$ (322,839)</u>	<u>\$ (36,484)</u>	<u>\$ (1,073,885)</u>	<u>\$ 8,887</u>
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:						
Depreciation	984,405	470,909	118,627	1,573,941	1,552,691	
Change in Assets and Liabilities:						
(Increase) decrease in accounts receivable	(596,103)	(203,033)	(387)	(799,523)	37,778	
(Increase) decrease in due from other funds		(233)	(27,000)	(27,233)	272,660	(4,896)
(Increase) decrease in inventories		(25,895)		(25,895)	(22,380)	
(Increase) decrease in prepaid expense	336	(1,209)		(873)	2,497	(15,471)
Increase (decrease) in vouchers payable	(46,206)	22,712	7,929	(15,565)	159,171	
Increase (decrease) in due to County			(1,640)	(1,640)	1,834	
Increase (decrease) in accrued payroll and liabilities	2,055	1,024	(3,572)	(493)	(35,381)	
Increase (decrease) in due to other funds	19,782	27,483	26,256	73,521	(373,260)	
Increase (decrease) in accrued sick and vacation	(17,801)	(9,325)		(27,126)	29,850	
Increase (decrease) in customer deposits		<u>1,575</u>		<u>1,575</u>	<u>550</u>	
Total adjustments	<u>346,468</u>	<u>284,008</u>	<u>120,213</u>	<u>750,689</u>	<u>1,626,010</u>	<u>(20,367)</u>
Net cash provided by (used in) operating activities	<u>\$ 217,549</u>	<u>\$ 699,282</u>	<u>\$ (202,626)</u>	<u>\$ 714,205</u>	<u>\$ 552,125</u>	<u>\$ (11,480)</u>

The notes to the financial statements are an integral part of this statement.

CITY OF ADRIAN, MICHIGAN
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS
June 30, 2007 and 2006

<u>ASSETS</u>	<u>2007</u>	<u>2006</u>
Cash and cash equivalents	\$ 454,573	\$ 330,587
Total assets	<u>\$ 454,573</u>	<u>\$ 330,587</u>
 <u>LIABILITIES</u>		
Liabilities:		
Vouchers payable	\$ 14,222	\$ 14,675
Due to other taxing units	7,573	19,994
Restricted deposits	<u>432,778</u>	<u>295,918</u>
Total liabilities	<u>\$ 454,573</u>	<u>\$ 330,587</u>

The notes to the financial statements are an integral part of this statement.

CITY OF ADRIAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Adrian, Michigan have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below:

Reporting Entity

The City of Adrian is a Michigan Municipal Corporation governed by an elected seven member commission. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that it is legally separate from the government.

Blended component unit. The City of Adrian Building Authority is governed by a three member board appointed by the City Commission. Although it is legally separate from the City, the City of Adrian Building Authority is reported as if it was part of the primary government because its sole purpose is to finance the construction of City parking lots.

The City of Adrian Building Authority is reported in the financial statements as part of the 'Automobile Parking System Enterprise Fund', where the revenues of the fund are paying off the bond issue of the Authority.

Discretely presented component units.

Downtown Development Authority (DDA) was created as a separate legal entity under Public Act 197 of 1975 of the State of Michigan. The purpose of the DDA is to plan and develop the downtown area of the City and to attract new businesses and residents. The governing body of DDA is appointed by the City Commission for a fixed term. The City approves the annual budget and any capital projects of DDA. Prior approval by the City is needed on any taxation by DDA. And, the City's approval is needed for any borrowing done by DDA. The Downtown Development Authority is presented as a governmental fund type.

The other discretely presented component unit is the Local Development Finance Authority (LDFA) created under Public Act 281 of 1986 of the State of Michigan. The LDFA's purpose is to work toward the elimination of the causes of unemployment, underemployment and joblessness, and to promote economic growth in the City of Adrian. The City appoints the majority of the LDFA Board of Directors. The budget of the LDFA needs the City's approval. And, the main revenue source of LDFA which is tax increment financing is a financial burden to the City. The Local Development Finance Authority is presented as a governmental fund type.

Separate financial statements for each of the individual component units are not available.

CITY OF ADRIAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Property taxes and State shared revenue are major sources of revenue which are considered to be susceptible to accrual. Property taxes for the City are levied July 1 of each year. The property taxes are recognized in the year levied.

State shared revenue (sales tax) received in July is accrued for proceeding year. Special assessment receivables are financed by the Capital Project Fund and are fully recognized when levied.

CITY OF ADRIAN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fiduciary funds can be either trust funds or agency funds. Trust funds use the same economic resource measurement focus and accrual basis accounting as do proprietary funds. Agency funds report only assets and liabilities and these do not have a measurement focus. They do, however, use the accrual basis of accounting to recognize receivables and payables.

Amounts due from other governments, loans receivable, Fee funding, and services provided associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Major Streets Fund* is a Special Revenue Fund that receives State and local funding for the purpose of construction and maintenance of City streets designated as major streets under State of Michigan Act 51 of Public Acts of 1951.

The *Local Streets Fund* is a Special Revenue Fund that receives State and local funding for the purpose of construction and maintenance of City streets designated as local streets under State of Michigan Act 51 of Public Acts of 1951.

The *Fee and Public-Purpose Fund* is a Special Revenue Fund that receives funds that are restricted for specific public-purpose uses and can be fully expended for the restricted purpose or purposes.

The government reports the following major proprietary funds.

The *Wastewater System Fund* accounts for the acquisition, operation, and maintenance of the City's wastewater system.

The *Water System Fund* accounts for the acquisition, operation and maintenance of the City's water system.

Additionally, the government reports the following fund types:

The *Internal Service Fund (Information Technology Fund)* accounts for management information systems and services provided to other funds of the City on a cost reimbursement basis.

The *Agency Funds* account for assets held by the City acting as an agent for individuals, private organizations, other governments, and/or other funds. There are three agency funds. The Payroll Reduction Fund handles the payment of City payroll deductions to third parties. The Property Tax Fund accounts for the collection and payment of property taxes billed and collected by the city. The Trust and Agency Fund accounts for monies received from various sources and held by the City in a custodial or agent capacity.

CITY OF ADRIAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments of utility charges between the City's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various function concerned.

Amounts reported as *program revenues* included 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary Funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Wastewater and Water Enterprise Funds are charges to customers for sales and services. The Wastewater and Water Enterprise Funds also recognize as operating revenues the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

E. Assets, liabilities, and net assets or equity.

1. Cash and investments

Cash includes amounts in cash on hand, demand deposits, and may include short-term investments with a maturity date within three months of the date acquired by the government.

Investments include Money Market Accounts, Certificates of Deposit, U.S. Agencies Securities, Mutual Funds, and Corporate Bonds.

CITY OF ADRIAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

State statutes authorize the government to invest in Money Market Accounts and Certificates of Deposit, Obligations of the U.S. Treasury, Federal Agencies, Commercial Paper, Corporate Bonds, Repurchase Agreements, and State approved Investment Pools.

Investments are stated at fair value.

2. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources. The City had no advances between funds at June 30, 2007.

Personal property taxes receivable is shown net of an allowance for uncollectibles.

Property taxes are levied as of July 1 on property values assessed as of the prior December 31. The billing is mailed on July 1 and is considered due upon receipt by the taxpayer; however, the actual due date is August 31. A lien on property occurs when property taxes are levied (July 1). On August 31, the bill becomes delinquent and penalties and interest may be assessed by the government.

Delinquent real property taxes are turned over to the County and reimbursed through a revolving fund. Therefore, property taxes receivable are not accounted for under the 60 day rule.

3. Inventories and prepaid items

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

CITY OF ADRIAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4. Restricted assets

Certain proceeds of enterprise fund revenue bonds and general obligations bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. The bond interest and redemption account is used to segregate resources accumulated for debt service payments. The bond reserve account is used to report resources set aside to make debt service payment on bonds which would otherwise be in default. The replacement account is used to report resources set aside to make major repairs and replacements to fixed operation assets of the enterprise fund.

5. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., road, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the primary government, as well as the component units, are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Land improvements	20 – 50
Buildings	10 – 20
Machinery, equipment, and furnishings	5 – 35
Utility systems	50 – 100
Infrastructure	15 – 100

CITY OF ADRIAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

6. Compensated absences

Vacation leave benefits for City employees are based on past services rendered and are accrued as a liability based on the expected use of the benefits through paid time off and cash payments at termination or retirement. The accrued liability for vacation time is determined under the vesting method as defined by GASB Statement 16.

Sick leave for City employees is vested to the extent that cash payments are made (up to allowable limits) to employees upon retirement. The accrued liability for sick leave is determined under the termination method as defined by GASB Statement 16.

The current portion (the amount normally expected to be liquidated with expendable available financial resources) of accrued sick and vacation pay are shown as a liability and expenditure in the applicable governmental fund types. The portion recognized in the governmental funds is only the compensated absences that have matured at year end. The entire accrued sick and vacation pay related to governmental fund types is reported in the government-wide statements.

In the proprietary funds as well as in the government-wide statements, the vested sick and vacation pay are recorded as an expense and liability of those funds as the benefits accrue to employees.

7. Long-term obligations

In the governmental-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, if any, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of any applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize any bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

8. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

CITY OF ADRIAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

9. Comparative data/reclassification

Comparative data for the prior year have been presented in order to provide an understanding of the changes in the financial position and operations of the funds. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with current year's presentation.

NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds except the Fee and Public-Purpose Special Revenue Fund and the permanent funds which are not budgeted. All annual appropriations lapse at fiscal year end.

On or before the last Tuesday of February each year, all departments of the City submit requests for appropriations to the Finance Director so that a budget may be prepared. With the first City Commission meeting in April, the proposed budget is presented to the City Commission for review. The Commission holds public hearings and a final budget must be prepared and adopted no later than the second week of May.

The appropriated budget is prepared by fund, function, and activity. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the department/activity level, i.e., City Commission, Finance Department, City Clerk. The Commission made supplemental budgetary appropriations throughout the year. The supplemental budgetary appropriations made in the General Fund were in anticipation of normal activity.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

B. Excess of expenditures over appropriations in budgetary funds

P.A. 621 of 1978, Section 18(1), as amended, of the State of Michigan provides that a local governmental unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the City's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a department/activity basis. The approved budgets of the City for these budgetary funds were adopted to the activity level i.e., City Commission, Finance Department, City Clerk. One fund had total expenditures exceed budget – Local Street Fund.

During the year ended June 30, 2007, the City incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated, as follows:

CITY OF ADRIAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Continued)

<u>Fund</u>	<u>Appropriations</u>	<u>Amount of Expenditures</u>	<u>Budget Variance</u>
General Fund			
Finance Department	\$ 328,964	\$ 335,147	\$ 6,183
City Clerk	153,686	168,561	14,875
City Hall	161,110	171,234	10,124
Cemetery	407,195	413,257	6,062
Department of Public Works	238,825	284,691	45,866
Stores – Central Supply	-	1,646	1,646
Engineering	94,257	145,567	51,310
Transfers out	250,167	250,712	545
Major Streets Fund			
Traffic service	94,680	132,587	37,907
Economic Development Fund			
Transfers out	30,000	37,500	7,500

Economic Development's additional expenditures were covered by less operating expenditures. Major Street covered additional expenditures by having less actual operating expenditures. And, General Fund covered its additional expenditures by occurring less expenditures in other areas.

C. Fund equity – designations

The City Commission has designated a part of the General Fund's unreserved fund balance for the following purposes:

1. Motor Vehicle Pool – Capital	\$ 400,000
2. Motor Vehicle Pool – Depreciation Catch-Up	700,000
3. City Hall Renovations	2,000,000
4. Vehicle storm damage	100,000
5. Property Acquisitions	150,000
6. Library Facade	200,000
7. Police Facility – Debt Service	250,000
8. Technology Infrastructure Upgrades	50,000
9. Telecommunication Upgrades	50,000
10. Library elevator	50,000
11. City Hall roof	40,000
12. Local Grant Match	<u>25,000</u>
Total Proposed Designations	<u>\$ 4,015,000</u>

CITY OF ADRIAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE 3. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As of June 30, 2007, the City had the following investments and maturities:

<u>Investment Maturities (In Years)</u>				
<u>Investment Type</u>	<u>Fair value</u>	<u>Less Than 1</u>	<u>1 - 5</u>	<u>6 - 10</u>
Money Market Accounts	\$ 681,777	\$ 681,777	\$	\$
Certificates of Deposit	4,243,416	2,944,939	715,838	582,639
U.S. Agencies	5,046,140	3,066,525	1,979,615	
Mutual Fund – Cash (U.S. Government Securities)	514,810	514,810		
Class – Pooled Investments	<u>203,107</u>	<u>203,107</u>		
Total fair value	<u>\$ 10,689,250</u>	<u>\$ 7,411,158</u>	<u>\$ 2,695,453</u>	<u>\$ 582,639</u>

Class Investment Pool is through MBIA Asset Management and is a 2a 7 – Like Pool. Investments consist of U.S. Government Agencies Securities both explicitly and implicitly guaranteed, and commercial paper.

Interest Rate Risk. City is exposed to interest rate risk with over 31% of investments maturing after one year. The City's investment policy has no provision limiting interest rate risk.

Credit Risk. The City's investment policy limits investments to certificates of deposit or money market accounts; U.S. Government and U.S. Agencies Securities; commercial paper with ratings at the two highest levels established by not less than two standard rating services; and corporate bonds, mutual funds, and repurchase agreements meeting State requirements. The money market accounts and mutual funds in the City's investments at June 30, 2007 were unrated. All of the U.S. government agencies investments of \$5,046,140 and a portion of the Class Investment (\$23,500) are implicitly guaranteed by the U.S. Government. This makes these investments subject to credit risk.

Concentration of Credit Risk. The City's investment policy does not limit the amount of investment with any one issuer. For investments, more than five percent of the City's holdings were with Bank of Lenawee (15% of the City's total investments which represent 83% of Major Street Fund's investments) in the form of certificate of deposit. Also, United Bank and Trust had 18% of the City's total investments, which was 19% of the General Fund's investments and 76% of Endowment Trust Fund's investments in the form of money market funds and U.S. Agencies securities.

In addition, Sky Bank had 40% of the City's total investment, which was 65% of the investments of the General Fund and 100% of the investments in the Water Fund, in the form of U.S. Agencies securities and money market accounts.

Custodial Credit Risk – Deposits. In the case of deposits, this is the risk that in the event of a bank failure, the deposits may not be fully returned to the City. Neither the City nor the discretely presented component units, have a policy limiting custodial credit risk, other than authorizing (through Commission approval) the depositories used. As of June 30, 2007, \$3,411,698 of the City's bank balance of \$3,685,973 was exposed to custodial credit risk because it was uninsured and uncollateralized. As of the same date, the discretely presented component units had exposure to custodial credit risk because \$197,966 of their bank balance of \$297,966 of was uninsured and uncollateralized.

CITY OF ADRIAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE 3. DETAILED NOTES ON ALL FUNDS (Continued)

Custodial Credit Risk – Investments. For the money market accounts and certificates of deposit which are with banks the exposure is the same as stated above for deposits. As of June 30, 2007, these investments with total balances of \$4,925,193 were exposed to custodial credit risk on the balance of \$2,629,022 as being uninsured and uncollateralized..

For the remaining investments, the risk is, in the event of failure of the counterparty, will the City be able to recover the value of its investments. The U.S. Agencies investments and Class Investment of \$5,249,247 are held by counterparties and the securities are uninsured and not registered in the name of the City, which exposes them to custodial credit risk. The mutual funds of \$514,810 are not exposed to custodial credit risk.

B. Receivables

Receivables as of year end for the government's individual major and nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	<u>General</u>	<u>Major Streets</u>	<u>Fee And Public- Purpose</u>	<u>Wastewater System</u>	<u>Water System</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Receivables:							
Taxes	\$ 538,205	\$	\$	\$	\$	\$	\$ 538,205
Accounts	70,689		380,774	534,552	545,864	12,799	1,544,678
Special assessments				68,501	22,629	491,171	582,301
Intergovernmental	318,827	10,309		402,410		46,204	777,750
Community Development loans						217,967	217,967
Gross receivables	927,721	10,309	380,774	1,005,463	568,493	768,141	3,660,901
Less: Allowance for uncollectibles	<u>463,158</u>						<u>463,158</u>
Net total Receivables	<u>\$ 464,563</u>	<u>\$ 10,309</u>	<u>\$ 380,774</u>	<u>\$ 1,005,463</u>	<u>\$ 568,493</u>	<u>\$ 768,141</u>	<u>\$ 3,197,743</u>

Governmental funds defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of *unearned revenue* reported in the government funds were as follows:

	<u>Unearned Revenue</u>
Funds for training classes to be held in the future	\$ 7,805
Donations restricted for library not yet earned	20,726
Drug forfeiture funds not yet allocated	<u>17,856</u>
	<u>\$ 46,387</u>

CITY OF ADRIAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE 3. DETAILED NOTES ON ALL FUNDS (Continued)

C. Capital assets

Capital asset activity for the year ended June 30, 2007 was as follows:

Primary Government

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 7,571,139	\$	\$	\$ 7,571,139
Total capital assets, not being depreciated	<u>7,571,139</u>	<u></u>	<u>-</u>	<u>7,571,139</u>
Capital assets, being depreciated:				
Land improvements	6,218,220	837,260		7,055,480
Buildings	4,622,229			4,622,229
Machinery, equipment, and furnishings	11,191,145	585,527		11,776,672
Infrastructure	<u>33,416,728</u>	<u>1,066,241</u>	<u></u>	<u>34,482,969</u>
Total capital assets, being depreciated	<u>55,448,322</u>	<u>2,489,028</u>	<u></u>	<u>59,937,350</u>
Less: Accumulated depreciation for:				
Land improvements	(596,058)	(287,311)		(883,369)
Buildings	(2,790,799)	(82,302)		(2,873,101)
Machinery, equipment, and furnishings	(6,642,250)	(912,938)		(7,555,188)
Infrastructure	<u>(28,829,683)</u>	<u>(272,447)</u>	<u></u>	<u>(29,102,130)</u>
Total accumulated depreciation	<u>(38,858,790)</u>	<u>(1,554,998)</u>	<u></u>	<u>(40,413,788)</u>
Total capital assets, being depreciated, net	<u>16,589,532</u>	<u>934,030</u>	<u>-</u>	<u>17,523,562</u>
Governmental activities, capital assets – net	<u>\$ 24,160,671</u>	<u>\$ 934,030</u>	<u>\$ -</u>	<u>\$ 25,094,701</u>

CITY OF ADRIAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE 3. DETAILED NOTES ON ALL FUNDS (Continued)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 904,592	\$ 22,868	\$	\$ 927,460
Construction in progress	<u>4,094,675</u>	<u>5,288,490</u>	<u></u>	<u>9,383,165</u>
Total capital assets, not being depreciated	<u>4,999,267</u>	<u>5,311,358</u>	<u></u>	<u>10,310,675</u>
Capital assets, being depreciated:				
Land improvements	1,582,008			1,582,008
Utility systems	62,116,770	587,592	(964,017)	61,740,345
Machinery, equipment, and furnishings	717,522		(34,915)	682,607
Building	<u></u>	<u>86,864</u>	<u></u>	<u>86,864</u>
Total capital assets, being depreciated	<u>64,416,300</u>	<u>674,456</u>	<u>(998,932)</u>	<u>64,091,824</u>
Less: Accumulated depreciation for:				
Land improvements	(517,092)	(32,026)		(549,118)
Utility systems	(23,594,372)	(1,479,122)	923,698	(24,149,796)
Machinery, equipment, and furnishings	(462,817)	(58,862)		(521,679)
Building	<u></u>	<u>(3,931)</u>	<u></u>	<u>(3,931)</u>
Total accumulated depreciation	<u>(24,574,281)</u>	<u>(1,573,941)</u>	<u>923,698</u>	<u>(25,224,524)</u>
Total capital assets, being depreciated – net	<u>39,842,019</u>	<u>(899,485)</u>	<u>(75,234)</u>	<u>38,867,300</u>
Business-type activities, capital assets – net	<u>\$ 44,841,286</u>	<u>\$ 4,411,873</u>	<u>\$ (75,234)</u>	<u>\$ 49,177,925</u>

Interest expense of \$22,365 was capitalized in fiscal year 2006-07 due on current debt financed projects in progress.

CITY OF ADRIAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE 3. DETAILED NOTES ON ALL FUNDS (Continued)

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

General government	\$ 66,041
Public safety	152,935
Public works (includes sidewalks and street lights)	198,914
Culture and recreation (includes parks)	349,312
Other services (includes library)	574,257
Community/economic development	3,250
Highways, streets, and bridges	<u>210,289</u>

Total depreciation expense – governmental activities	<u>\$ 1,554,998</u>
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Business-type activities:

Wastewater system	\$ 984,405
Water system	470,909
Dial-A-Ride system	62,358
Automobile parking system	15,238
Storm water system	<u>41,031</u>

Total depreciation expense – business-type activities	<u>\$ 1,573,941</u>
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Construction commitments

The government has active construction projects as of June 30, 2007. The projects include street construction and paving, wastewater system improvements, lighting, and park renovation.

	<u>Spent-to-Date</u>	<u>Remaining Commitment</u>
Wastewater Treatment Plant upgrades	\$ 4,599,795	\$ 687,207
Light – Monument Park	-	22,825
Beecher Street reconstruction	287,979	864,918
Street paving	-	294,127
Burr Ponds renovation	<u>328,949</u>	<u>427,401</u>
Total	<u>\$ 5,216,723</u>	<u>\$2,296,478</u>

CITY OF ADRIAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE 3. DETAILED NOTES ON ALL FUNDS (Continued)

The special assessment portion of the commitment for street construction is being financed by the Capital Project Fund that will be repaid by the benefiting property owners. The City's portion of these projects are being funded by the transfer of existing resources from the Municipal Streets Fund. The commitment for improvements to the wastewater and water systems is being financed by revenue bonds secured by wastewater and water revenues.

Discretely presented component units:

Capital asset activity for the Downtown Development Authority (DDA) for the year ended June 30, 2007 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 53,494	\$	\$	\$ 53,494
Capital assets, being depreciated:				
Land improvements	1,225,000			1,225,000
Less: Accumulated depreciation for:				
Land improvements	<u>(588,000)</u>	<u>(49,000)</u>	<u> </u>	<u>(637,000)</u>
DDA capital assets – net	<u>\$ 690,494</u>	<u>\$ (49,000)</u>	<u>\$ -</u>	<u>\$ 641,494</u>

Capital asset activity for the Local Development Finance Authority (LDFA) for the year ended June 30, 2007 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, being depreciated:				
Utility systems	\$ 920,000	\$	\$	\$ 920,000
Less: Accumulated depreciation for:				
Utility	<u>(138,000)</u>	<u>(4,600)</u>	<u> </u>	<u>(142,600)</u>
LDFA capital assets – net	<u>\$ 782,000</u>	<u>\$ (4,600)</u>	<u>\$ -</u>	<u>\$ 777,400</u>

CITY OF ADRIAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE 3. DETAILED NOTES ON ALL FUNDS (Continued)

D. Interfund receivables, payables, and transfers

Primary Government

Due to/from other funds:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General	\$ 590,961	Major Street	\$ 33,264
		Local Street	31,364
		Fee and Public Purpose	382,612
		Community Development	4,261
		Endowment Trust	8
		Perpetual Care	67
		Wastewater	26,011
		Water	34,691
		Municipal Street	31
		Dial-A-Ride System	33,956
		Automobile Parking System	2,718
		Storm Water Utility	34,885
		Economic Development	7,500
		Omni	493
	<u>590,961</u>		<u>590,961</u>
		General	106
		Storm water utility	127
Water	<u>233</u>		<u>233</u>
Endowment Trust	<u>22,659</u>	General	<u>22,659</u>
Auto Parking System	<u>48,500</u>	General	<u>48,500</u>
Storm Water Utility	<u>29,400</u>	General	<u>29,400</u>
Information Technology	12,034	Community Development	1,518
		Wastewater	4,742
		Water	4,156
		Major street	757
		Local street	757
		Economic development	104
	<u>12,034</u>		<u>12,034</u>
Total primary government	<u>\$ 703,787</u>		<u>\$ 703,787</u>

CITY OF ADRIAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE 3. DETAILED NOTES ON ALL FUNDS (Continued)

Due to/from primary government and component units:

<u>Receivable Entity</u>		<u>Payable Entity</u>	
General Fund	\$ <u>890</u>	Downtown Development Authority	\$ <u>890</u>
Auto Parking	\$ <u>5,000</u>	Downtown Development Authority	\$ <u>5,000</u>
Information Technology	\$ <u>1,132</u>	Downtown Development Authority	\$ <u>1,132</u>
Downtown Development Authority	\$ <u>7,800</u>	General	\$ <u>7,800</u>

The balance of \$8,270 due to the Information Technology Fund from other funds noted above is for interfund services provided. All remaining balances resulted from time lag between the dates that (1) reimbursable expenditures occur, (2) revenues collected for another fund, and (3) payments between funds are made.

Interfund transfers:

Primary Government

<u>Transfers out:</u>	<u>General Fund</u>	<u>Local Streets</u>	<u>Nonmajor Government</u>	<u>Nonmajor Enterprise</u>	<u>Information Technology</u>	<u>Total</u>
General	\$	\$	\$ 11,712	\$ 110,411	\$ 120,789	\$ 242,912
Major Street		189,961				189,961
Nonmajor Governmental	90,415	395,000				485,415
Fee and Public Purpose	1,173,270					1,173,270
Water					3,045	3,045
	<u>\$ 1,263,685</u>	<u>\$ 584,961</u>	<u>\$ 11,712</u>	<u>\$ 110,411</u>	<u>\$ 123,834</u>	<u>\$ 2,094,603</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (i.e. property taxes from Municipal Street Fund to Local Street Fund) (2) use unrestricted revenues collected in the General Fund to various programs accounted for in other funds in accordance with budgetary authorizations (3) move revenues to the General Fund from other funds for General Fund programs related to the overall purpose of the transferring fund in accordance with budgetary authorizations. In fiscal year 2006-07, the Fee and Public-Purpose Fund transferred \$1,173,270 to the General Fund for City beautification projects. Also, Major Street Fund transferred to Local Street Fund \$189,961 to support local street construction projects.

E. Long-term Debt

General obligation bonds. The government issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities and land purchase. General obligation bonds have been issued for both business-type activities and component unit.

General obligation bonds are direct obligations and pledge the full faith and credit of the government.

CITY OF ADRIAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE 3. DETAILED NOTES ON ALL FUNDS (Continued)

General obligation bonds currently outstanding are as follows:

<u>Purpose</u>	<u>Date of Issue</u>	<u>Amount of Issue</u>	<u>Interest Rates</u>	<u>Final Maturity Date</u>	<u>Annual Principal Payments</u>	<u>Balance Outstanding</u>
Component Unit						
Downtown Development Authority	10/01/92	\$ 1,025,000	6.4%	3/01/2012	\$ 80,000 to 90,000	<u>\$ 405,000</u>

Primary Government

The City has purchased a parcel of land, located in Madison Township, with an installment purchase obligation from the Bank of Lenawee. The installment purchase is for \$1,200,000 with an interest rate of 3.64% per annum. Payments are made semiannually over a ten year term. The debt is a general obligation to the City.

The installment purchase obligations currently outstanding are:

	<u>Closing Date</u>	<u>Value of Contract</u>	<u>Interest</u>	<u>Final Maturity Date</u>	<u>Annual Principal Payments</u>	<u>Balance Outstanding</u>
Governmental:						
Parks and Trees Department	5/23/03	\$ 1,200,000	3.64%	5/23/2013	\$ 105,201 to 140,394	<u>\$ 771,188</u>

CITY OF ADRIAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE 3. DETAILED NOTES ON ALL FUNDS (Continued)

Annual debt service requirements to maturity for general obligation bonds and bank loans are as follows:

Year Ending June 30	<u>Governmental Activities</u>		<u>Component Unit – DDA</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 117,225	\$ 27,014	\$ 85,000	\$ 25,920
2009	121,531	22,708	80,000	20,480
2010	125,995	18,244	80,000	15,360
2011	130,623	13,618	80,000	10,240
2012	135,420	8,818	80,000	5,120
2013	<u>140,394</u>	<u>3,844</u>	<u>80,000</u>	<u>5,120</u>
	<u>\$ 771,188</u>	<u>\$ 94,246</u>	<u>\$ 405,000</u>	<u>\$ 77,120</u>

Revenue bonds: The government issues bonds where the government pledges income derived from the acquired or constructed assets to pay debt service. Under two revenue bond issues – Wastewater System Revenue Bonds (September 26, 2002) not to exceed \$9,000,000; and Water Supply System Revenue Bonds, Series 2003, (September 26, 2002) not to exceed \$8,000,000, funding is provided for improvements in the wastewater and water systems.

These bond issues were purchased by the Michigan Municipal Bond Authority under the Drinking Water Revolving Fund (DWRF) and the State Revolving Fund (SRF). Under the purchase contract, the City has received the principal proceeds as loan draw-downs as the construction costs were incurred. These projects are now completed. At June 30, 2007, the Wastewater System DWRF loan/bond balance outstanding was \$7,850,000 and the Water System DWRF loan/bond balance was \$4,985,000.

For fiscal year ended June 30, 2006, two revenue bond issues – Wastewater System Revenue Bond (September 22, 2006) not to exceed \$2,040,000; and Wastewater System Revenue Bond, Series 2006B (December 15, 2007) not to exceed \$7,090,000 for improvements to wastewater system were issued.

These bond issues were purchased by the Michigan Municipal Bond Authority under the State Revolving Fund (SRF) program. Under the purchase contract the City has received the principal proceeds as loan draw-downs as the construction costs were incurred. At June 30, 2007 the construction was complete related to Revenue Bond Wastewater System Bonds (September 27, 2006) not to exceed \$2,040,000. The balances outstanding at June 30, 2007 were \$2,040,00 and \$6,456,529, respectively.

CITY OF ADRIAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE 3. DETAILED NOTES ON ALL FUNDS (Continued)

Revenue bonds outstanding at June 30, 2007 are as follows:

<u>Purpose</u>	<u>Date of Issue</u>	<u>Amount of Issue</u>	<u>Interest Rates</u>	<u>Final Maturity Date</u>	<u>Annual Principal Payments</u>	<u>Balance Outstanding</u>
Wastewater System Improvements	9/26/02	\$ 8,920,000	2.5%	10/01/2023	\$ 350,000 to 560,000	\$ 7,850,000
Water System Improvements	9/26/02	5,665,000	2.5%	10/01/2023	\$ 220,000 to 355,000	4,985,000
Wastewater Improvements	9/22/05	2,040,000	1.675%	10/1/2026	\$ 85,000 To 120,000	2,040,000
Wastewater System Improvements	12/15/05	7,090,000	1.675%	4/1/2027	305,000 to 410,000	6,456,529
						<u>\$ 21,331,529</u>

Revenue bond debt service requirements to maturity for bonds issued in 2002 and September 22, 2005 are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2008	700,000	345,646
2009	720,000	329,382
2010	735,000	311,907
2011	750,000	293,488
2012	775,000	275,235
2013 2024	<u>11,195,000</u>	<u>1,712,784</u>
	<u>\$ 14,875,000</u>	<u>\$ 3,268,442</u>

Final payment schedule information is not yet available on the bond issued 12/15/05. A schedule for the revenue bond debt service requirements for the 12/15/05 bond is not shown.

Reimbursement obligation

The Local Development Finance Authority, a discretely presented component unit, is obligated to pay under a reimbursement agreement a manufacturing firm for construction costs incurred in regard to on-site improvements made at the Beecher Street Industrial Park. The amount to be paid is \$800,000 with interest at 10% per annum. Principal payments are scheduled at \$50,000 per year starting June 1, 1993 thru June 1, 2008; however, the payments of principal and interest are subject to limitation by the amount on tax increment revenue available in LDFA. Insufficient tax revenues and the resulting inability to pay the debt obligations in full does not constitute a default. Nor does the City have any direct responsibility in paying any shortfalls.

CITY OF ADRIAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE 3. DETAILED NOTES ON ALL FUNDS (Continued)

There were insufficient funds in the LDFA to pay the full obligation under this reimbursement agreement in fiscal years 2006-07 and 2005-06. The outstanding balance on the debt obligation was \$764,100 at June 30, 2007.

Future principal and interest payments on this obligation will vary depending upon the tax increment revenues collected. For this reason, a schedule of future debt service requirements is not presented.

The Local Development Finance Authority also has a reimbursement agreement with the City of Adrian. This agreement also pays back the City for costs it incurred for on-site improvements at the Beecher Street Industrial Park. This total amount is \$120,000 with interest at 8% per annum. Principal payments are scheduled at \$7,500 per year starting June 1, 1993 thru June 1, 2008. Payments of principal and interest are subject to limitation by the amount of tax increment revenue collected. However, the City has priority of payment on its obligation from LDFA over that of the manufacturing firm.

No schedule of indebtedness or of future debt service requirements is shown since this obligation is owed to the City.

CHANGES IN LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2007 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities:					
Installment purchase obligations	\$ 884,260	\$	\$ 113,072	\$ 771,188	\$ 117,225
Accrued sick and vacation	<u>313,360</u>	<u>1,447,655</u>	<u>1,303,191</u>	<u>457,824</u>	<u>270,810</u>
Governmental activity - long-term liability	<u>\$ 1,197,620</u>	<u>\$ 1,447,655</u>	<u>\$ 1,416,263</u>	<u>\$ 1,229,012</u>	<u>\$ 388,035</u>
Business-type activities:					
General obligation bonds	\$ 100,000	\$	\$ 100,000	\$ -	\$ -
Revenue bonds	<u>16,418,031</u>	<u>5,513,498</u>	<u>600,000</u>	<u>21,331,529</u>	<u>700,000</u>
Total bonds payable	16,518,031	5,513,498	700,000	21,331,529	700,000
Accrued sick and vacation	<u>141,073</u>	<u>438,061</u>	<u>464,556</u>	<u>114,578</u>	<u>61,900</u>
Business-type activity - long-term liability	<u>\$ 16,659,104</u>	<u>\$ 5,951,559</u>	<u>\$ 1,164,556</u>	<u>\$ 21,446,107</u>	<u>\$ 761,900</u>

For the governmental activities, compensated absences are generally liquidated by the General Fund

CITY OF ADRIAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE 3. DETAILED NOTES ON ALL FUNDS (Continued)

CHANGES IN LONG-TERM LIABILITIES

Component units:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
DDA – general obligation bonds	\$ 490,000	\$	\$ 85,000	\$ 405,000	\$ 85,000
LDFA – reimbursement obligation	<u>764,100</u>	<u> </u>	<u> </u>	<u>764,100</u>	<u> </u>
Component units – long term liabilities	<u>\$ 1,254,100</u>	<u>\$ -</u>	<u>\$ 85,000</u>	<u>\$ 1,169,100</u>	<u>\$ 85,000</u>

F. Segment information

The City has revenue bonds related to the Wastewater and Water System Funds. Investors in the revenue bonds rely solely on the revenue generated by the individual activities for repayment.

Since both the Wastewater System Fund and the Water System Fund are major enterprise funds in the financial statements, all pertinent data is disclosed in the basic financial statements presented.

G. Endowment Trust Fund

Various endowment gifts are received by the City and reported in the Endowment Trust Fund. The amount of endowment income and, in certain cases, portion of principal available for expenditures in accord with donor-restricted requirements was \$562,878 at June 30, 2007 and \$66,850 at June 30, 2006. All investment earnings have been derived from investments in certificates of deposit. There has been no net appreciation or depreciation of investment value recognized in investment earnings. The total investment earnings (interest) and certain principal amounts create expendable balance in the Endowment Trust Fund. This balance is reported in the Statement of Net Assets in the equity section as 'Endowment: Expendable Net Assets.'

CITY OF ADRIAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE 4. OTHER INFORMATION

A. Risk management – insurance pools

The City of Adrian is a member of the Michigan Municipal Liability and Property Pool for its general liability coverage and a member of the Michigan Municipal Workers Compensation Fund for its workers compensation coverage. Both pools are under the Michigan Municipal Program sponsored by the Michigan Municipal League.

The City pays annual premiums to the pools. The pools are self-sustaining through member premiums, and each carries reinsurance through commercial companies for claims in excess to a minimum of \$1,000,000 for specific occurrence, and to a minimum of \$2,000,000 in aggregate in excess of the pool loss reserve fund.

In the event that a single loss should exceed the amount of protection afforded by the pool loss reserve fund, reinsurance, or other insurance carried by the pools, or in the event that a series of losses should deplete or exhaust the loss reserve fund and reinsurance, the payment of valid losses shall be the obligation of the individual member or members of the respective pool against whom the claim was made.

No such event has occurred with the City of Adrian and the pools to which it belongs.

B. Contingent liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the government expects such amounts, if any, to be immaterial.

C. Retirement plan

Plan description

The City participates in the Michigan Municipal Employees' Retirement System (MERS), an agent multi-employer defined benefit pension plan, which provides retirement benefits to all full-time employees of the City. MERS is administered by its Board of Trustees. The actuary for the System is the Gabriel, Roeder, Smith & Company. The Municipal Employees' Retirement Act of 1984, as amended by 1996 Public Act 220 of the State of Michigan assigns the authority to establish and amend the benefit provisions of the plans that participate in MERS to the respective employer entities; for the City of Adrian, that authority rests with the City. The Municipal Employees' Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to Municipal Employees' Retirement System of Michigan, 447 North Canal Road, Lansing, Michigan 48917.

CITY OF ADRIAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE 4. OTHER INFORMATION (Continued)

C. Retirement plan (Continued)

Funding policy

Employees contribute a percent of their annual compensation, as selected by the municipality. A 3%/5% contribution program was available prior to 1985 and may be continued, but not adopted after 1984. Under this program, the employee contributes 3% of the first \$4,200 of annual compensation and 5% of portions over \$4,200. The City is required to contribute at a actuarially determined rate per City Division; the current rates vary from 7.91% to 41.73% of compensation per Division. The contribution requirements for the City are determined by the System's actuary.

Annual pension cost

For the year ended June 30, 2007, the City's annual pension cost of \$816,109 for MERS was equal to the City's required and actual contributions. The required contribution was determined as part of the December 31, 2007 actuarial valuation using the entry age actuarial cost method. Also, employee contributions were \$306,827 for fiscal year 2006-07. The actuarial assumptions included -

- [a] 8.0% investment rate of return,
- [b] projected salary increases of 4.5% per year compounded annually,
- [c] additional projected salary increases of 0.0% to 4.16% per year, depending on age, attributable seniority/merit, and promotional salary increases,
- [d] the assumption that benefits will increase 2.5% per year (annually) after retirement, for persons under Benefits E-1 or E-2, and
- [e] based under Benefits E-1 or E-2, inflation rate assumption is 2.5% annually

The actuarial value of MERS' assets was determined using techniques that smooth the effects of short term volatility in the market value of investments over a ten year period.

CITY OF ADRIAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE 4. OTHER INFORMATION (Continued)

Unfunded actuarial accrued liability is amortized by level percentage of payroll contributions over a period of years. The standard amortization period to fund the unfunded liability is 29 years, with this time period reestablished with each annual actuarial valuation. Overfunded actuarial accrued liability is amortized over 10 years.

Three-Year Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Recognized	Net Pension Obligation
6/30/05	\$ 423,912	100%	0
6/30/06	624,802	100%	0
6/30/07	816,109	100%	0

Actuarial Accrued Liability (as of 12/31/06)

Retirees and beneficiaries currently receiving benefits	\$ 24,488,264
Terminated employees not yet receiving benefits	1,462,347
Nonvested terminated employees (pending refunds of accumulated member contributions)	84,898
Current employees --	
Accumulated employee contributions including allocated investment income	4,213,341
Employer financed	<u>14,316,443</u>
Total Actuarial Accrued Liability	44,565,293
Net Assets Available for Benefits at Actuarial Value	<u>38,692,642</u>
(Market Value is \$39,233,914)	
Unfunded (Overfunded) Actuarial Accrued Liability	<u>\$ 5,872,651</u>

D. Deferred compensation plan

The government offers its employees a deferred compensation plan (the plan of International City Management Association Retirement Corporation (ICMA)) created in accordance with Internal Revenue Code Section 457, amended August 20, 1996. The plan, available to all government employees, permits them to defer a portion of their salary, up to 100% of annual salary or \$15,500 whichever is less, until future years. Participation in the plan is optional.

Under the deferred compensation plan, all assets and income of the plan described in subsection (b) (6) are held in trust for the exclusive benefit of participants and their beneficiaries.

Investments are managed by the plan's trustees under one of four investment options, or a combination thereof. The choice of the investment option(s) is made by the participants.

CITY OF ADRIAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE 4. OTHER INFORMATION (Continued)

The market value of the investments at June 30, 2007 was \$5,314,146.

Since the City has no significant administrative involvement with the assets of the deferred compensation plan, nor does it perform investment functions for the Plan, the deferred compensation plan is not shown in the financial statements.

E. Retirement Health Savings Plan

The City has a health savings plan for non-union and certain union employees. The plan provides funds (savings) to participating employees upon retirement for health insurance premiums and other health costs. The City made contributions to the plan (\$74,553 in fiscal year 2006-07) during employment, but no additional funding is provided after retirement. The plan had investments of \$407,115 at June 30, 2007.

CITY OF ADRIAN, MICHIGAN
REQUIRED SUPPLEMENTAL INFORMATION
June 30, 2007

CITY'S DEFINED BENEFIT PENSION PLAN (MERS)

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets [a]	Actuarial Accrued Liability (AAL) Entry Age [b]	Unfunded AAL (UAAL) [b-a]	Funded Ratio [a/b]	Covered Payroll [c]	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/00	\$ 32,184,883	\$ 31,275,689	\$ (909,194)	102.9%	\$ 6,119,081	\$ (14.80%)
12/31/01	33,449,560	33,579,131	129,571	99.6%	6,201,978	2.09%
12/31/02	33,080,222	34,645,351	1,565,129	95.4%	6,360,989	24.61%
12/31/03	34,241,034	37,001,028	2,759,994	92.5%	6,847,899	40.3%
12/31/04	35,354,281	39,798,110	4,443,829	88.8%	7,219,754	61.5%
12/31/05	36,311,897	41,147,699	4,835,802	88.2%	7,282,519	66.4%
12/31/06	38,692,642	44,565,293	5,872,651	86.8%	7,351,140	79.8%

(PAGE 1 OF 2)
CITY OF ADRIAN, MICHIGAN

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS

June 30, 2007
With Comparative Totals for June 30, 2006

SPECIAL REVENUE FUNDS

ASSETS	<u>Municipal Streets</u>	<u>Community Development</u>	<u>Economic Development</u>	<u>OMNI</u>	<u>Total</u>
Cash and cash equivalents	\$ 73,451	\$ 65,401	\$ 224,613	\$ 211,408	\$ 574,873
Investments		79,500			79,500
Loans receivable		217,967			217,967
Accounts receivable – other	12,092				12,092
Cemetery lots					
Due from other funds					
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total assets	<u>\$ 85,543</u>	<u>\$ 362,868</u>	<u>\$ 224,613</u>	<u>\$ 211,408</u>	<u>\$ 884,432</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Vouchers payable	\$	\$ 4,046	\$ 4,942	\$ 2,532	\$ 11,520
Accrued liabilities		4,679			4,679
Due to other funds	<u>31</u>	<u>5,779</u>	<u>7,604</u>	<u>493</u>	<u>13,907</u>
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities	<u>31</u>	<u>14,504</u>	<u>12,546</u>	<u>3,025</u>	<u>30,106</u>
Fund balances:					
Reserved for lots inventory					
Reserved for perpetual care					
Reserved for endowments					
Reserved for loans		217,967			217,967
Reserved for encumbrances			6,556		6,556
Unreserved, undesignated	<u>85,512</u>	<u>130,397</u>	<u>205,511</u>	<u>208,383</u>	<u>629,803</u>
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total fund balances	<u>85,512</u>	<u>348,364</u>	<u>212,067</u>	<u>208,383</u>	<u>854,376</u>
Total liabilities and fund balance	<u>\$ 85,543</u>	<u>\$ 362,868</u>	<u>\$ 224,613</u>	<u>\$ 211,408</u>	<u>\$ 884,432</u>

The notes to the financial statements are an integral part of this statement.

(PAGE 2 OF 2)
CITY OF ADRIAN, MICHIGAN

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS

June 30, 2007
With Comparative Totals for June 30, 2006

PERMANENT FUNDS

Endowment Trust	Perpetual Care	Total	<u>Totals</u> Nonmajor Governmental Funds	
			2007	2006
\$ 8,414	\$ 4,094	\$ 12,508	\$ 587,381	\$ 399,542
627,155	790,929	1,418,084	1,497,584	909,513
		-	217,967	176,759
		-	12,092	163,501
	7,499	7,499	7,499	7,499
<u>22,659</u>		<u>22,659</u>	<u>22,659</u>	<u>40,208</u>
<u>\$ 658,228</u>	<u>\$ 802,522</u>	<u>\$1,460,750</u>	<u>\$ 2,345,182</u>	<u>\$ 1,697,022</u>
\$	\$	\$	\$ 11,520	\$ 150,917
			4,679	3,823
<u>8</u>	<u>67</u>	<u>75</u>	<u>13,982</u>	<u>2,558</u>
<u>8</u>	<u>67</u>	<u>75</u>	<u>30,181</u>	<u>157,298</u>
	7,499	7,499	7,499	7,499
	794,956	794,956	794,956	764,547
95,342		95,342	95,342	80,627
			217,967	176,759
			6,556	154,682
<u>562,878</u>		<u>562,878</u>	<u>1,192,681</u>	<u>355,610</u>
<u>658,220</u>	<u>802,455</u>	<u>1,460,675</u>	<u>2,315,001</u>	<u>1,539,724</u>
<u>\$ 658,228</u>	<u>\$ 802,522</u>	<u>\$1,460,750</u>	<u>\$ 2,345,182</u>	<u>\$ 1,697,022</u>

(PAGE 1 OF 2)
CITY OF ADRIAN, MICHIGAN

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

NONMAJOR GOVERNMENTAL FUNDS

For Fiscal Year Ended June 30, 2007
With Comparative Totals for Fiscal Year Ended June 30, 2006

SPECIAL REVENUE FUNDS

	<u>Municipal Streets</u>	<u>Community Development</u>	<u>Economic Development</u>	<u>OMNI</u>	<u>Total</u>
Revenues:					
Taxes	\$ 436,671	\$	\$	\$	\$ 436,671
Intergovernmental – Federal		272,770	171,377		444,147
Investment earnings	8,857	12,479	2,618	4,610	28,564
Other		175	120,412	162,538	283,125
Contribution from DDA		2,000			2,000
Public contributions					
Administrative fees		<u>129,097</u>			<u>129,097</u>
Total revenues	<u>445,528</u>	<u>416,521</u>	<u>294,407</u>	<u>167,148</u>	<u>1,323,604</u>
Expenditures:					
Community/Economic Development		337,646	199,522		537,168
Public safety				98,608	98,608
Other services					
Total expenditures	<u>-</u>	<u>337,646</u>	<u>199,522</u>	<u>98,608</u>	<u>635,776</u>
Excess (deficiency) of revenues over (under) expenditures	<u>445,528</u>	<u>78,875</u>	<u>94,885</u>	<u>68,540</u>	<u>687,828</u>
Other financing sources (uses):					
Transfers in		11,712			11,712
Transfers out	<u>(395,000)</u>	<u>(32,915)</u>	<u>(37,500)</u>		<u>(465,415)</u>
Total other financing sources (uses)	<u>(395,000)</u>	<u>(21,203)</u>	<u>(37,500)</u>	<u>-</u>	<u>(453,703)</u>
Net changes in fund balances	50,528	57,672	57,385	68,540	234,125
Fund balances – beginning of year	<u>34,984</u>	<u>290,692</u>	<u>154,682</u>	<u>139,843</u>	<u>620,201</u>
Fund balances – end of year	<u>\$ 85,512</u>	<u>\$ 348,364</u>	<u>\$ 212,067</u>	<u>\$ 208,383</u>	<u>\$ 854,326</u>

The notes to the financial statements are an integral part of this statement.

(PAGE 2 OF 2)
CITY OF ADRIAN, MICHIGAN

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

NONMAJOR GOVERNMENTAL FUNDS

For Fiscal Year Ended June 30, 2007
With Comparative Totals for Fiscal Year ended June 30, 2006

<u>PERMANENT FUNDS</u>			<u>Totals</u> Nonmajor Governmental Funds	
<u>Endowment</u> <u>Trust</u>	<u>Perpetual</u> <u>Care</u>	<u>Total</u>	2007	2006
\$	\$	\$	\$ 436,671	\$ 421,928
			444,147	281,485
15,395	39,524	54,919	83,483	33,377
	10,885	10,885	294,010	207,982
			2,000	11,482
496,028		496,028	496,028	
			129,097	
<u>511,423</u>	<u>50,409</u>	<u>561,832</u>	<u>1,885,436</u>	<u>956,254</u>
			537,168	595,793
			98,608	61,457
<u>680</u>		<u>680</u>	<u>680</u>	<u>5,000</u>
<u>680</u>	<u>-</u>	<u>680</u>	<u>636,456</u>	<u>662,250</u>
<u>510,743</u>	<u>50,409</u>	<u>561,152</u>	<u>1,248,980</u>	<u>294,004</u>
			11,712	11,482
	<u>(20,000)</u>	<u>(20,000)</u>	<u>(485,415)</u>	<u>(501,388)</u>
	<u>(20,000)</u>	<u>(20,000)</u>	<u>(473,703)</u>	<u>(489,906)</u>
510,743	30,409	541,152	775,277	(195,902)
<u>147,477</u>	<u>772,046</u>	<u>919,523</u>	<u>1,539,724</u>	<u>1,735,626</u>
<u>\$ 658,220</u>	<u>\$ 802,455</u>	<u>\$1,460,675</u>	<u>\$ 2,315,001</u>	<u>\$ 1,539,724</u>

CITY OF ADRIAN, MICHIGAN

MUNICIPAL STREET SPECIAL REVENUE FUND

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL**

For Fiscal Year Ended June 30, 2007

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Property tax	\$ 437,069	\$ 437,069	\$ 436,671	\$ (398)
Investment earnings	<u>7,000</u>	<u>7,000</u>	<u>8,857</u>	<u>1,857</u>
Total revenues	444,069	444,069	445,528	1,459
Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess of revenues over expenditures	444,069	444,069	445,528	1,459
Other financing uses:				
Transfers out	<u>(444,069)</u>	<u>(444,069)</u>	<u>(395,000)</u>	<u>49,069</u>
Net change in fund balance	-	-	50,528	50,528
Fund balance - beginning of year	<u>34,984</u>	<u>34,984</u>	<u>34,984</u>	<u>-</u>
Fund balance - end of year	<u>\$ 34,984</u>	<u>\$ 34,984</u>	<u>\$ 85,512</u>	<u>\$ 50,528</u>

CITY OF ADRIAN, MICHIGAN

COMMUNITY DEVELOPMENT SPECIAL REVENUE FUND

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL**

For Fiscal Year Ended June 30, 2007

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Intergovernmental	\$ 400,617	\$ 752,617	\$ 272,770	\$ (479,847)
Investment earnings	9,000	9,000	12,479	3,479
Administration fees	192,205	192,205	129,097	(63,108)
Contribution from DDA – TIF	11,712	11,712	2,000	(9,712)
Sale of Property	<u>13,378</u>	<u>48,498</u>	<u>175</u>	<u>(48,323)</u>
Total revenues	626,912	1,014,032	416,521	(597,511)
Expenditures:				
Other services:				
Community development	<u>605,709</u>	<u>992,829</u>	<u>337,646</u>	<u>655,183</u>
Excess (deficiency) of revenues over (under) expenditures	<u>21,203</u>	<u>21,203</u>	<u>78,875</u>	<u>57,672</u>
Other financing sources (uses):				
Transfers in	11,712	11,712	11,712	-
Transfers out	<u>(32,915)</u>	<u>(32,915)</u>	<u>(32,915)</u>	<u>-</u>
Total other financing sources (uses)	<u>(21,203)</u>	<u>(21,203)</u>	<u>(21,203)</u>	<u>-</u>
Net change in fund balance	-	-	57,672	57,672
Fund balance - beginning of year	<u>290,692</u>	<u>290,692</u>	<u>290,692</u>	<u>-</u>
Fund balance - end of year	<u>\$ 290,692</u>	<u>\$ 290,692</u>	<u>\$ 348,364</u>	<u>\$ 57,672</u>

CITY OF ADRIAN, MICHIGAN

ECONOMIC DEVELOPMENT SPECIAL REVENUE FUND

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL**

For Fiscal Year Ended June 30, 2007

	<u>Budgeted Amounts</u>			<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>	<u>Actual Amounts</u>	
Revenues:				
Intergovernmental	\$ 50,000	\$ 101,275	\$ 171,377	\$ 70,102
Investment earnings	1,000	1,000	2,618	1,618
Donations	150,000	150,000	112,500	(37,500)
Other	<u> </u>	<u>368,161</u>	<u>7,912</u>	<u>(360,249)</u>
Total revenues	201,000	620,436	294,407	(326,029)
Expenditures:				
Other services:				
Economic development	<u>171,000</u>	<u>590,436</u>	<u>199,522</u>	<u>390,914</u>
Excess of revenues over expenditures	<u>30,000</u>	<u>30,000</u>	<u>94,885</u>	<u>64,885</u>
Other financing sources (uses):				
Transfers out	<u>(30,000)</u>	<u>(30,000)</u>	<u>(37,500)</u>	<u>(7,500)</u>
Total other financing sources (uses)	<u>(30,000)</u>	<u>(30,000)</u>	<u>(37,500)</u>	<u>(7,500)</u>
Net change in fund balance	-	-	57,385	57,385
Fund balance - beginning of year	<u>154,682</u>	<u>154,682</u>	<u>154,682</u>	
Fund balance - end of year	<u>\$ 154,682</u>	<u>\$ 154,682</u>	<u>\$ 212,067</u>	<u>\$ 57,385</u>

CITY OF ADRIAN, MICHIGAN

OMNI SPECIAL REVENUE FUND

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL**

For Fiscal Year Ended June 30, 2007

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
OMNI forfeitures	\$	\$ 158,000	\$ 160,588	\$ 2,588
Investment earnings		4,700	4,610	(90)
Other		<u>2,000</u>	<u>1,950</u>	<u>(50)</u>
Total revenues	-	164,700	167,148	2,448
Expenditures:				
Public safety, OMNI		<u>164,700</u>	<u>98,608</u>	<u>66,092</u>
Excess of revenues over expenditures	-	-	68,540	68,540
Fund balance - beginning of year	<u>139,843</u>	<u>139,843</u>	<u>139,843</u>	-
Fund balance - end of year	<u>\$ 139,843</u>	<u>\$ 139,843</u>	<u>\$ 208,383</u>	<u>\$ 68,540</u>

COMBINING STATEMENT OF NET ASSETS

NONMAJOR ENTERPRISE FUNDS

June 30, 2007

With Comparative Totals for June 30, 2006

ASSETS	Capital Projects Revolving Fund	Dial-A-Ride System	Automobile Parking System	Storm Water Utility	Enterprise Funds 2007	2006
Current assets:						
Cash and cash equivalents	\$ 135,830	\$	\$ 83,189	\$ 9,588	\$ 228,607	\$ 407,409
Receivables:						
Special assessments	491,171				491,171	409,804
Due from other funds			48,500	29,400	77,900	55,900
Due from other governments		46,204			46,204	45,158
Due from component unit			5,000		5,000	
Accounts		707			707	320
Restricted assets – cash and investments:						
Bond interest and redemption						2,000
Account – cash						
Total current assets	<u>627,001</u>	<u>46,911</u>	<u>136,689</u>	<u>38,988</u>	<u>849,589</u>	<u>920,591</u>
Noncurrent assets:						
Capital assets:						
Land		22,868	638,500		661,368	638,500
Building		86,864			86,864	
Utility systems				2,380,243	2,380,243	2,380,243
Land improvements		526,574	720,573	861,435	1,582,008	1,582,008
Equipment		(371,114)	156,033		682,607	717,521
Less: Accumulated depreciation			(515,360)	(1,259,345)	(2,145,819)	(2,027,194)
Net capital assets	-	<u>265,192</u>	<u>999,746</u>	<u>1,982,333</u>	<u>3,247,271</u>	<u>3,291,078</u>
Total noncurrent assets	-	<u>265,192</u>	<u>999,746</u>	<u>1,982,333</u>	<u>3,247,271</u>	<u>3,291,078</u>
Total assets	<u>\$ 627,001</u>	<u>\$ 312,103</u>	<u>\$ 1,136,435</u>	<u>\$ 2,023,321</u>	<u>\$ 4,096,860</u>	<u>\$ 4,211,669</u>

	Capital Projects Revolving Fund	Dial-A-Ride System	Automobile Parking System	Storm Water Utility	Totals Nonmajor Enterprise Funds 2007	2006
LIABILITIES						
Current liabilities:						
Vouchers payable	\$	\$ 7,312	\$ 459	\$ 2,756	\$ 10,527	\$ 2,598
Accrued liabilities			384	1,014	1,398	4,970
Due to other funds		33,056	2,718	35,012	70,786	210,461
Due to other governments		6,543			6,543	8,183
General obligation bonds payable – current						100,000
		46,911	3,561	38,782	89,254	326,212
						2,000
		46,911	3,561	38,782	89,254	328,212
		46,911	3,561	38,782	89,254	328,212
NET ASSETS						
Invested in capital assets net of related debt		265,192	999,746	1,982,333	3,247,271	3,191,078
Unrestricted	627,001		133,128	206	760,335	692,379
Total net assets	\$ 627,001	\$ 265,192	\$ 1,132,874	\$ 1,982,539	\$ 4,007,606	\$ 3,883,457

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

NONMAJOR ENTERPRISE FUNDS

**For Fiscal Year Ended June 30, 2007
With Comparative Totals for Fiscal Year Ended June 30, 2006**

	<u>Capital Projects Revolving Fund</u>	<u>Dial-A-Ride System</u>	<u>Automobile Parking System</u>	<u>Storm Water Utility</u>	<u>Totals Nonmajor Enterprise Funds</u>
					<u>2007</u> <u>2006</u>
Operating revenues:					
Charges for services	\$	\$ 91,132	\$ 84,416	\$ 280,598	\$ 456,146 \$ 415,543
Special assessment			26,065		26,065
Miscellaneous		8,674			8,674 547
Total operating revenues	-	99,806	110,481	280,598	490,885 416,110
Operating expenses:					
Cost of services		425,543	76,723	192,831	695,097 684,232
Depreciation		62,358	15,238	41,031	118,627 111,624
Total operating expenses	-	487,901	91,961	233,862	813,724 795,856
Operating income (loss)	-	(388,095)	18,520	46,736	(322,839) (379,746)
Nonoperating revenues (expenses):					
Intergovernmental – State		162,521			162,521 170,310
Intergovernmental – Federal		71,805			71,805 57,729
Interest revenue	26,387		66	10	26,463 22,347
Interest expense	(3,331)			(700)	(4,031) (3,476)
Contribution from DDA			5,000		5,000
Total nonoperating revenues (expenses)	23,056	234,326	5,066	(690)	261,758 246,910

	Capital Projects <u>Revolving Fund</u>	Dial-A-Ride <u>System</u>	Automobile <u>Parking System</u>	Storm Water <u>Utility</u>	Totals Nonmajor Enterprise Funds <u>2007</u>	<u>2006</u>
Income (loss) before contribution and transfers	\$ 23,056	\$ (153,769)	\$ 23,586	\$ 46,046	\$ (61,081)	\$ (132,836)
Capital contribution – State Transfers in		74,819			74,819	110,932
Transfers out		91,411	6,000	13,000	110,411	148,285
						<u>(27,355)</u>
Change in net assets	23,056	12,461	29,586	59,046	124,149	99,026
Total net assets – beginning of year	<u>603,945</u>	<u>252,731</u>	<u>1,103,288</u>	<u>1,923,493</u>	<u>3,883,457</u>	<u>3,784,431</u>
Total net assets – end of year	<u>\$ 627,001</u>	<u>\$ 265,192</u>	<u>\$ 1,132,874</u>	<u>\$ 1,982,539</u>	<u>\$ 4,007,606</u>	<u>\$ 3,883,457</u>

COMBINING STATEMENT OF CASH FLOWS

NONMAJOR ENTERPRISE FUNDS

For Fiscal Year Ended June 30, 2007
With Comparative Totals for Fiscal Year Ended June 30, 2006

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

	Capital Projects Revolving Fund	Dial-A-Ride System	Automobile Parking System	Storm Water Utility	Nonmajor Enterprise Funds
					20072006
Cash flows from operating activities:					
Cash received from customers	\$	\$ 99,419	\$ 99,481	\$264,598	\$ 393,290
Cash paid to suppliers		(214,949)	(42,703)	(99,517)	(383,858)
Cash paid to employees		(206,101)	(34,705)	(68,149)	(297,856)
Net cash provided by (used in) operating activities	-	(321,631)	22,073	96,932	(288,424)
Cash flows from noncapital financing activities:					
Cash received – Federal		75,836			68,110
Cash received – State		157,444			186,609
Transfers from General Fund		88,351	(75,844)	13,000	207,808
Contributions from DDA	(199,085)		5,000		(84,398)
Special assessment revenue provided to other funds					
Net cash provided by noncapital financing activities	(199,085)	321,631	(70,844)	13,000	378,129
Cash flows from capital and related financing activities:					
Principal paid on general obligation bonds				(100,000)	(100,000)
Interest paid and agent fees on general obligation bonds				(2,700)	(7,449)
Special assessments	36,689				82,683
Net cash provided by (used in) capital and related financing activities	36,689	-	-	(102,700)	(24,766)

	Totals			
	Capital Projects Revolving Fund	Dial-A-Ride System	Automobile Parking System	Storm Water Utility
				Enterprise Funds 2007
				2006
Cash flows from investing activities:				
Interest income	\$ 23,056	\$	\$ 66	\$ 23,132 \$ 22,347
Net cash provided by investing activities	23,056	-	66	23,132 22,347
Net increase (decrease) in cash and cash equivalents	(139,340)	-	(48,705)	(180,803) 87,286
Cash and cash equivalents at beginning of year	275,170	-	131,894	409,410 322,124
Cash and cash equivalents at end of year	\$ 135,830	\$ -	\$ 83,189	\$ 228,607 \$ 409,410

**RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH
PROVIDED BY (USED IN) OPERATING ACTIVITIES**

Operating income (loss)	\$	\$ (388,095)	\$ 18,520	\$ 46,736	\$ (322,839)	\$ (379,746)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:						
Depreciation		62,358	15,238	41,031	118,627	111,624
Change in Assets and Liabilities:						
(Increase) decrease in due from other funds						
(Increase) decrease in accounts receivable		(387)	(11,000)	(16,000)	(27,000)	(22,653)
Increase (decrease) in vouchers payable		6,133	(520)	2,316	7,929	(167)
Increase (decrease) in due to County		(1,640)			(1,640)	(8,399)
Increase (decrease) in accrued payroll and liabilities			(165)	(3,407)	(3,572)	1,834
Increase (decrease) in due to other funds				26,256	26,256	3,584
Total adjustments		66,464	3,553	50,196	120,213	91,322
Net cash provided by (used in) operating activities	\$ -	\$ (321,631)	\$ 22,073	\$ 96,932	\$ (202,626)	\$ (288,424)
Non Cash Investing, Capital and Financing Activities:						
Contributions of capital assets from State		74,819			74,819	

The notes to the financial statements are an integral part of this statement.

CITY OF ADRIAN, MICHIGAN
CAPITAL PROJECTS REVOLVING ENTERPRISE FUND
COMPARATIVE STATEMENTS OF NET ASSETS
June 30, 2007 and 2006

<u>ASSETS</u>	<u>June 30, 2007</u>	<u>June 30, 2006</u>
Current assets:		
Cash	\$ 135,830	\$ 275,170
Receivables:		
Special assessments	<u>491,171</u>	<u>409,804</u>
Total assets	<u>\$ 627,001</u>	<u>\$ 684,974</u>
 <u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Due to General Fund	\$	\$ 53,674
Due to Local Street Fund	<u> </u>	<u>27,355</u>
Total liabilities	<u> </u>	<u>81,029</u>
Net assets – unrestricted	<u>627,001</u>	<u>603,945</u>
Total net assets	<u>\$ 627,001</u>	<u>\$ 603,945</u>

The notes to the financial statements are an integral part of this statement.

CITY OF ADRIAN, MICHIGAN

CAPITAL PROJECTS REVOLVING ENTERPRISE FUND

COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES
IN FUND NET ASSETS

For Fiscal Years Ended June 30, 2007 and 2006

	<u>June 30, 2007</u>	<u>June 30, 2006</u>
Operating revenues	\$ _____	\$ _____
Operating expenses	_____	_____
Operating income		
Nonoperating revenues (expenses):		
Interest revenue	26,387	22,338
Interest expense	<u>(3,331)</u>	<u>(27,355)</u>
Change in net assets	23,056	(5,017)
Total net assets – beginning of year	<u>603,945</u>	<u>608,962</u>
Total net assets – end of year	<u><u>\$ 627,001</u></u>	<u><u>\$ 603,945</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF ADRIAN, MICHIGAN
CAPITAL PROJECTS REVOLVING ENTERPRISE FUND
COMPARATIVE STATEMENTS OF CASH FLOWS
For Fiscal Years Ended June 30, 2007 and 2006
INCREASE IN CASH AND CASH EQUIVALENTS

	<u>June 30, 2007</u>	<u>June 30, 2006</u>
Cash flows from operating activities:		
Net cash provided by (used in) operating activities	\$ -	\$ -
Cash flows from noncapital financing activities:		
Special assessment revenue provided to other funds	(199,085)	(84,398)
Net cash provided by (used in) noncapital financing activities	(199,085)	(84,398)
Cash flows from capital and related financing activities:		
Cash received on special assessment	36,689	82,683
Net cash provided by capital and related financing activities	36,689	82,683
Cash flows from investing activities:		
Interest	23,056	22,338
Net increase in cash and cash equivalents	(139,340)	20,623
Cash and cash equivalents at beginning of year	275,170	254,547
Cash and cash equivalents at end of year	<u>\$ 135,830</u>	<u>\$ 275,170</u>

**RECONCILIATION OF OPERATING INCOME TO NET CASH
PROVIDED BY (USED IN) OPERATING ACTIVITIES**

Operating income	\$ -	\$ -
Adjustments to reconcile operating income to net cash provided by (used in) operating activities	-	-
Net cash provided by (used in) operating activities	<u>\$ -</u>	<u>\$ -</u>

The notes to the financial statements are an integral part of this statement.

CITY OF ADRIAN, MICHIGAN
DIAL-A-RIDE SYSTEM ENTERPRISE FUND
COMPARATIVE STATEMENTS OF NET ASSETS
June 30, 2007 and 2006

<u>ASSETS</u>	<u>June 30, 2007</u>	<u>June 30, 2006</u>
Current assets:		
Due from other governments:		
Federal	\$ 8,632	\$ 12,663
State	37,572	32,495
Accounts Receivable	<u>707</u>	<u>320</u>
Total current assets	<u>46,911</u>	<u>45,478</u>
Noncurrent assets:		
Capital assets:		
Land	22,868	
Building	86,864	
Equipment	526,574	561,488
Accumulated depreciation	<u>(371,114)</u>	<u>(308,757)</u>
Net capital assets	<u>265,192</u>	<u>252,731</u>
Total noncurrent assets	<u>265,192</u>	<u>252,731</u>
Total assets	<u>\$ 312,103</u>	<u>\$ 298,209</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Vouchers payable	\$ 7,312	\$ 1,179
Due to other governments:		
County	6,543	8,183
Due to other funds – General	<u>33,056</u>	<u>36,116</u>
Total current liabilities	<u>46,911</u>	<u>45,478</u>
Net assets:		
Invested in net assets, net of related debt	<u>265,192</u>	<u>252,731</u>
Total net assets	<u>\$ 265,192</u>	<u>\$ 252,731</u>

CITY OF ADRIAN, MICHIGAN

DIAL-A-RIDE SYSTEM ENTERPRISE FUND

**COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN
FUND NET ASSETS**

For Fiscal Years Ended June 30, 2007 and 2006

	<u>June 30, 2007</u>	<u>June 30, 2006</u>
Operating revenues:		
Charges for services	\$ 91,132	\$ 87,043
Other	<u>8,674</u>	<u>547</u>
Total operating revenues	<u>99,806</u>	<u>87,590</u>
Operating expenses:		
Cost of services:		
Salaries and wages	206,101	205,197
Fringe benefits	80,392	62,651
Contracted services	21,097	18,663
Supplies and materials	49,405	48,245
Telephone	1,580	2,705
Insurance	15,488	18,310
Advertising	405	852
Maintenance	44,641	37,346
Rent	4,394	3,945
Administrative and accounting	2,040	2,000
Depreciation	<u>62,358</u>	<u>55,331</u>
Total operating expenses	<u>487,901</u>	<u>455,245</u>
Operating loss	<u>(388,095)</u>	<u>(367,655)</u>
Nonoperating revenues:		
Intergovernmental - State	162,521	170,310
Intergovernmental - Federal	<u>71,805</u>	<u>57,729</u>
Total nonoperating revenues	<u>234,326</u>	<u>228,039</u>
Loss before contributions and transfers	(153,769)	(139,616)
Transfers in	91,411	84,285
Capital contribution - State	<u>74,819</u>	<u>110,932</u>
Change in net assets	12,461	55,601
Total net assets -- beginning of year	<u>252,731</u>	<u>197,130</u>
Total net assets -- end of year	<u><u>\$ 265,192</u></u>	<u><u>\$ 252,731</u></u>

CITY OF ADRIAN, MICHIGAN
DIAL-A-RIDE SYSTEM ENTERPRISE FUND
COMPARATIVE STATEMENTS OF CASH FLOWS

For Fiscal Years Ended June 30, 2007 and 2006

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

	<u>June 30, 2007</u>	<u>June 30, 2006</u>
Cash flows from operating activities:		
Cash received from customers	\$ 99,419	\$ 87,270
Cash paid to suppliers	(214,949)	(196,040)
Cash paid to employees	<u>(206,101)</u>	<u>(205,197)</u>
Net cash used in operating activities	<u>(321,631)</u>	<u>(313,967)</u>
Cash flows from noncapital financing activities:		
Grant received – Federal	75,836	68,110
Grant received – State	157,444	186,609
Transfer from General Fund	<u>88,351</u>	<u>59,248</u>
Net cash provided by noncapital financing activities	<u>321,631</u>	<u>313,967</u>
Net increase (decrease) in cash and cash equivalents		
Cash and cash equivalents at beginning of year	<u>-</u>	<u>-</u>
Cash and cash equivalents at end of year	<u>\$ -</u>	<u>\$ -</u>

**RECONCILIATION OF OPERATING LOSS TO NET CASH
USED IN OPERATING ACTIVITIES**

Operating loss	\$ (388,095)	\$ (367,655)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	62,358	55,331
Change in Assets and Liabilities:		
(Increase) decrease in accounts receivable	(387)	(320)
Increase (decrease) in vouchers payable	6,133	(3,157)
Increase (decrease) in due to County	<u>(1,640)</u>	<u>1,834</u>
Total adjustments	<u>66,464</u>	<u>53,688</u>
Net cash used in operating activities	<u>\$ (321,631)</u>	<u>\$ (313,967)</u>
Non Cash Investing, Capital and Financing Activities:		
Contribution of capital assets from State	<u>74,819</u>	

CITY OF ADRIAN, MICHIGAN
AUTOMOBILE PARKING SYSTEM ENTERPRISE FUND
COMPARATIVE STATEMENTS OF NET ASSETS
June 30, 2007 and 2006

<u>ASSETS</u>	<u>June 30, 2007</u>	<u>June 30, 2006</u>
Current assets:		
Cash and cash equivalents	\$ 83,189	\$ 131,893
Due from General Fund	48,500	42,500
Due from component unit	<u>5,000</u>	<u></u>
Total current assets	<u>136,689</u>	<u>174,393</u>
Capital assets:		
Land	638,500	638,500
Land improvements	720,573	720,573
Equipment	156,033	156,033
Less: Accumulated depreciation	<u>(515,360)</u>	<u>(500,123)</u>
Net capital assets	<u>999,746</u>	<u>1,014,983</u>
Total noncurrent assets	<u>999,746</u>	<u>1,014,983</u>
Total assets	<u>\$ 1,136,435</u>	<u>\$ 1,189,376</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Vouchers payable	\$ 459	\$ 979
Accrued payroll	384	549
Due to General Fund	<u>2,718</u>	<u>84,560</u>
Total current liabilities	<u>3,561</u>	<u>86,088</u>
Total liabilities	<u>3,561</u>	<u>86,088</u>
Net assets:		
Invested in capital assets, net of related debt	999,746	1,014,983
Unrestricted	<u>133,128</u>	<u>88,305</u>
Total net assets	<u>\$ 1,132,874</u>	<u>\$ 1,103,288</u>

CITY OF ADRIAN, MICHIGAN

AUTOMOBILE PARKING SYSTEM ENTERPRISE FUND

**COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN
FUND NET ASSETS**

For Fiscal Years Ended June 30, 2007 and 2006

	<u>June 30, 2007</u>	<u>June 30, 2006</u>
Operating revenues:		
Charges for services	\$ 84,416	\$ 46,841
Special assessment	<u>26,065</u>	<u></u>
Total operating revenues	<u>110,481</u>	<u>46,841</u>
Operating expenses:		
Cost of services:		
Salaries and wages	34,540	42,145
Fringe benefits	1,141	17,778
Overhead expense		196
Supplies	12,407	7,499
Contracted services	5,100	5,148
Insurance	1,163	1,422
Electricity	10,515	10,680
Rent	11,857	3,269
Administration		13,000
Depreciation	<u>15,238</u>	<u>15,262</u>
Total operating expenses	<u>91,961</u>	<u>116,399</u>
Operating income	<u>18,520</u>	<u>(69,558)</u>
Nonoperating revenues (expenses):		
Interest income	66	
Contribution from DDA	<u>5,000</u>	<u></u>
Total nonoperating revenues (expenses)	<u>5,066</u>	<u></u>
Income (loss) before transfers	23,586	(69,558)
Transfer in – General Fund	<u>6,000</u>	<u>59,000</u>
Change in net assets	29,586	(10,558)
Total net assets – beginning of year	<u>1,103,288</u>	<u>1,113,846</u>
Total net assets – end of year	<u>\$ 1,132,874</u>	<u>\$ 1,103,288</u>

CITY OF ADRIAN, MICHIGAN
AUTOMOBILE PARKING SYSTEM ENTERPRISE FUND
COMPARATIVE STATEMENTS OF CASH FLOWS
For Fiscal Years Ended June 30, 2007 and 2006
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

	<u>June 30, 2007</u>	<u>June 30, 2006</u>
Cash flows from operating activities:		
Cash received from customers	\$ 99,481	\$ 37,741
Cash paid to suppliers	(42,703)	(60,840)
Cash paid to employees	<u>(34,705)</u>	<u>(42,566)</u>
Net cash used in operating activities	<u>22,073</u>	<u>(65,665)</u>
Cash flows from noncapital financing activities:		
Transfer from General Fund	(75,844)	143,560
Contribution from DDA	<u>5,000</u>	<u> </u>
Net cash used in noncapital financing activities	<u>(70,844)</u>	<u> </u>
Cash flows from investing activities:		
Interest	<u>66</u>	<u> </u>
Net increase (decrease) in cash and cash equivalents	(48,705)	77,895
Cash and cash equivalents at beginning of year	<u>131,894</u>	<u>53,999</u>
Cash and cash equivalents at end of year	<u>\$ 83,189</u>	<u>\$ 131,894</u>

**RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH
USED IN OPERATING ACTIVITIES**

Operating income (loss)	\$ 18,520	\$ (69,558)
Adjustments to reconcile operating income (loss) to net cash used in operating activities:		
Depreciation	15,238	15,262
Change in Assets and Liabilities:		
(Increase) decrease in due from other funds	(11,000)	(9,253)
(Increase) decrease in accounts receivable		153
Increase (decrease) vouchers payable	(520)	(1,848)
Increase (decrease) in accrued payroll	<u>(165)</u>	<u>(421)</u>
Total adjustments	<u>3,553</u>	<u>3,893</u>
Net cash used in operating activities	<u>\$ 22,073</u>	<u>\$ (65,665)</u>

CITY OF ADRIAN, MICHIGAN
STORM WATER UTILITY ENTERPRISE FUND
COMPARATIVE STATEMENTS OF NET ASSETS
June 30, 2007 and 2006

<u>ASSETS</u>	<u>June 30, 2007</u>	<u>June 30, 2006</u>
Current assets:		
Cash and cash equivalents	\$ 9,588	\$ 346
Due from other funds – General	29,400	13,400
Restricted assets:		
Bond interest – cash		2,000
Total current assets	<u>39,988</u>	<u>15,746</u>
Noncurrent assets:		
Capital assets:		
Utility systems	2,380,243	2,380,243
Improvements other than buildings	861,435	861,435
Less: Accumulated depreciation	<u>(1,259,345)</u>	<u>(1,218,314)</u>
Total capital assets	<u>1,982,333</u>	<u>2,023,364</u>
Total noncurrent assets	<u>1,982,333</u>	<u>2,023,364</u>
Total assets	<u>\$ 2,021,321</u>	<u>\$ 2,039,110</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Vouchers payable	\$ 2,756	\$ 440
Accrued payroll	1,014	4,421
Due to other funds – General	34,885	8,756
Due to other funds – water	127	
General obligation bonds payable – current		<u>100,000</u>
Total current liabilities	<u>38,782</u>	<u>113,617</u>
Current liability - payable from restricted asset:		
Accrued interest		<u>2,000</u>
Total liabilities	<u>38,782</u>	<u>115,617</u>
Net assets:		
Invested in capital asset - net of related debt	1,982,333	1,923,364
Unrestricted	<u>206</u>	<u>129</u>
Total net assets	<u>\$ 1,982,539</u>	<u>\$ 1,923,493</u>

CITY OF ADRIAN, MICHIGAN

STORM WATER UTILITY ENTERPRISE FUND

**COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN
IN FUND NET ASSETS**

For Fiscal Years Ended June 30, 2007 and 2006

	<u>June 30, 2007</u>	<u>June 30, 2006</u>
Operating revenues:		
Charges for services	\$ 280,598	\$ 281,679
Operating expenses:		
Cost of services:		
Salaries and wages	64,742	54,098
Overhead expense	25,933	19,651
Supplies	40,562	27,510
Contracted services	19,605	54,007
Rent	27,361	14,213
Administration	14,628	13,702
Depreciation	<u>41,031</u>	<u>41,031</u>
Total operating expenses	<u>233,862</u>	<u>224,212</u>
Operating income	<u>46,736</u>	<u>57,467</u>
Nonoperating revenues (expenses):		
Interest revenue	10	9
Interest expense	(400)	(3,176)
Bond issuance cost/pay agent fees	<u>(300)</u>	<u>(300)</u>
Total nonoperating revenues (expenses)	<u>(690)</u>	<u>(3,467)</u>
Income before transfers	46,046	54,000
Transfers in	<u>13,000</u>	<u>5,000</u>
Change in net assets	59,046	59,000
Net assets – beginning of year	<u>1,923,493</u>	<u>1,864,493</u>
Net assets – end of year	<u><u>\$ 1,982,539</u></u>	<u><u>\$ 1,923,493</u></u>

CITY OF ADRIAN, MICHIGAN

STORM WATER UTILITY ENTERPRISE FUND

COMPARATIVE STATEMENTS OF CASH FLOWS

For Fiscal Years Ended June 30, 2007 and 2006

DECREASE IN CASH AND CASH EQUIVALENTS

	<u>June 30, 2007</u>	<u>June 30, 2006</u>
Cash flows from operating activities:		
Cash received from customers	\$ 264,598	\$ 268,279
Cash paid to suppliers	(99,517)	(126,978)
Cash paid to employees	<u>(68,149)</u>	<u>(50,093)</u>
Net cash provided by operating activities	<u>96,932</u>	<u>91,208</u>
Cash from noncapital financing activities:		
Transfers from General Fund	<u>13,000</u>	<u>5,000</u>
Cash flows from financing activities:		
Interest paid and agent fees on general obligation bonds	(2,700)	(7,449)
Bond principal payment	<u>(100,000)</u>	<u>(100,000)</u>
Net cash used in capital and related financing activities	<u>(102,700)</u>	<u>(107,449)</u>
Cash flows from investing activities:		
Interest	<u>10</u>	<u>9</u>
Net decrease in cash and cash equivalents	7,242	(11,232)
Cash and cash equivalents at beginning of year	<u>2,346</u>	<u>13,578</u>
Cash and cash equivalents at end of year	\$ <u>9,588</u>	\$ <u>2,346</u>

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Operating income	\$ 46,736	\$ 57,467
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	41,031	41,031
Changes in Assets and Liabilities:		
(Increase) decrease in due from other funds	(16,000)	(13,400)
Increase (decrease) in vouchers payable	2,316	(3,394)
Increase (decrease) in accrued liabilities	(3,407)	4,005
Increase (decrease) in due to other funds	<u>26,256</u>	<u>5,499</u>
Total adjustments	<u>50,196</u>	<u>33,741</u>
Net cash provided by operating activities	\$ <u>96,932</u>	\$ <u>91,208</u>

CITY OF ADRIAN, MICHIGAN
WASTEWATER SYSTEM ENTERPRISE FUND
COMPARATIVE STATEMENTS OF NET ASSETS
June 30, 2007 and 2006

<u>ASSETS</u>	<u>June 30, 2007</u>	<u>June 30, 2006</u>
Current assets:		
Cash and cash equivalents	\$ 181,278	\$ 417,114
Investments		121,567
Receivables:		
Accounts	534,552	340,859
Deferred assessments	68,501	68,501
State of Michigan – SRF	402,410	
Prepaid expense	3,134	3,470
Restricted assets available for current liabilities:		
Bond interest and redemption account - cash	20,667	
Bond interest and redemption account – investment	<u>410,488</u>	<u>328,450</u>
Total current assets	<u>1,621,030</u>	<u>1,279,961</u>
Noncurrent assets:		
Restricted investments:		
Replacement account – investment	500,000	500,000
Bond interest and redemption account – investment	<u>290,934</u>	<u>223,000</u>
Total noncurrent restricted assets	<u>790,934</u>	<u>723,000</u>
Capital assets:		
Land	163,164	163,164
Sewer system	36,688,238	37,286,648
Less: Accumulated depreciation	(15,098,566)	(15,037,853)
Construction in progress	<u>8,665,772</u>	<u>3,571,146</u>
Net capital assets	<u>30,418,608</u>	<u>25,983,105</u>
Total noncurrent assets	<u>31,209,542</u>	<u>26,706,105</u>
Total assets	<u>\$ 32,830,572</u>	<u>\$ 27,986,066</u>

CITY OF ADRIAN, MICHIGAN
WASTEWATER SYSTEM ENTERPRISE FUND
COMPARATIVE STATEMENTS OF NET ASSETS
June 30, 2007 and 2006

<u>LIABILITIES</u>	<u>June 30, 2007</u>	<u>June 30, 2006</u>
Current liabilities:		
Vouchers payable	\$ 429,612	\$ 475,818
Accrued payroll	11,764	9,709
Due to other funds:		
General	26,011	6,550
Information Technology	4,742	4,421
DWRF Bonds payable – current	<u>460,000</u>	<u>365,000</u>
Total current liabilities	<u>932,129</u>	<u>861,498</u>
Current liabilities – payable from restricted assets:		
Accrued interest	<u>49,063</u>	<u>51,344</u>
Noncurrent liabilities:		
Accrued sick and vacation	37,297	55,098
DWRF Bonds payable	7,475,000	7,850,000
SRF Bonds payable	<u>8,411,529</u>	<u>2,983,031</u>
Total noncurrent liabilities	<u>15,923,826</u>	<u>10,888,129</u>
Total liabilities	<u>16,905,018</u>	<u>11,800,971</u>
<u>NET ASSETS</u>		
Invested in capital assets, net of related debt	14,072,079	14,785,074
Restricted for debt service	673,026	500,106
Restricted for replacement	500,000	500,000
Unrestricted	<u>680,449</u>	<u>399,915</u>
Total net assets	<u>\$ 15,925,554</u>	<u>\$ 16,185,095</u>

CITY OF ADRIAN, MICHIGAN

WASTEWATER SYSTEM ENTERPRISE FUND

**COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN
FUND NET ASSETS**

For Fiscal Years Ended June 30, 2007 and 2006

	<u>June 30, 2007</u>	<u>June 30, 2006</u>
Operating revenues:		
Charges for services	\$ 3,392,142	\$ 2,686,315
Miscellaneous revenue	17,995	25,447
Special assessments	<u>50,988</u>	<u> </u>
Total operating revenues	<u>3,461,125</u>	<u>2,711,762</u>
Operating expenses:		
Cost of services:		
Wastewater treatment plant operation	1,566,713	1,475,562
Sanitary sewer expenses	204,078	215,518
Broad Street station expenses	43,069	31,237
Lift station expenses	38,321	33,642
Retention basis expenses	21,770	8,017
Administrative and overhead	731,688	781,271
Depreciation	<u>984,405</u>	<u>978,340</u>
Total operating expenses	<u>3,590,044</u>	<u>3,523,587</u>
Operating loss	<u>(128,919)</u>	<u>(811,825)</u>
Nonoperating revenues (expenses):		
Interest revenue	67,909	32,531
Interest expense	<u>(198,531)</u>	<u>(207,594)</u>
Total nonoperating revenues (expenses)	<u>(130,622)</u>	<u>(175,063)</u>
Change in net assets	(259,541)	(986,888)
Total net assets – beginning of year	<u>16,185,095</u>	<u>17,171,983</u>
Total net assets -- end of year	<u><u>\$ 15,925,554</u></u>	<u><u>\$ 16,185,095</u></u>

CITY OF ADRIAN, MICHIGAN

WASTEWATER SYSTEM ENTERPRISE FUND

COMPARATIVE STATEMENTS OF CASH FLOWS

For Fiscal Years Ended June 30, 2007 and 2006

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

	<u>June 30, 2007</u>	<u>June 30, 2006</u>
Cash flows from operating activities:		
Cash received from customers	\$ 2,865,022	\$ 2,717,416
Cash paid to suppliers	(1,840,534)	(1,753,081)
Cash paid to employees	<u>(806,939)</u>	<u>(796,614)</u>
Net cash provided by (used in) operating activities	<u>217,549</u>	<u>167,721</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets net of disposals	(5,419,908)	(3,633,672)
Interest expense	(200,812)	(209,812)
Bond proceeds – SRF Bonds	5,513,498	2,983,031
Principal paid on DWRF Bonds	<u>(365,000)</u>	<u>(355,000)</u>
Net cash provided by (used in) capital and related financing activities	<u>(472,222)</u>	<u>(1,215,453)</u>
Cash flows from investing activities:		
Interest	67,909	32,531
Investments purchased	(28,405)	
Investment proceeds	<u></u>	<u>941,116</u>
Net cash provided by (used in) investing activities	<u>39,504</u>	<u>973,647</u>
Net increase (decrease) in cash and cash equivalents	(215,169)	(74,085)
Cash and cash equivalents at beginning of year	<u>417,114</u>	<u>491,199</u>
Cash and cash equivalents at end of year (including \$20,667 in restricted funds)	<u>\$ 201,945</u>	<u>\$ 417,114</u>

CITY OF ADRIAN, MICHIGAN

WASTEWATER SYSTEM ENTERPRISE FUND

COMPARATIVE STATEMENTS OF CASH FLOWS

For Fiscal Years Ended June 30, 2007 and 2006

RECONCILIATION OF OPERATING LOSS TO NET CASH
PROVIDED BY (USED IN) OPERATING ACTIVITIES

	<u>June 30, 2007</u>	<u>June 30, 2006</u>
Operating loss	\$ <u>(128,919)</u>	\$ <u>(811,825)</u>
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:		
Depreciation	984,405	978,340
Changes in Assets and Liabilities:		
(Increase) decrease in accounts receivable	(596,103)	5,654
(Increase) decrease in due from other funds		
(Increase) decrease in prepaids	336	980
Increase (decrease) in vouchers payable	(46,206)	323,825
Increase (decrease) in accrued payroll	2,055	(18,528)
Increase (decrease) in accrued sick and vacation	(17,801)	24,082
Increase (decrease) in due to other funds	<u>19,782</u>	<u>(334,807)</u>
Total adjustments	<u>346,468</u>	<u>979,546</u>
Net cash provided by (used in) in operating activities	\$ <u>217,549</u>	\$ <u>167,721</u>

CITY OF ADRIAN, MICHIGAN

WATER SYSTEM ENTERPRISE FUND

COMPARATIVE STATEMENTS OF NET ASSETS

June 30, 2007 and 2006

<u>ASSETS</u>	<u>June 30, 2007</u>	<u>June 30, 2006</u>
Current assets:		
Cash and cash equivalents	\$ 18,753	\$ 121,818
Receivables:		
Accounts	545,864	342,831
Deferred assessments	22,629	22,629
Due from other funds	233	
Inventories	168,925	143,030
Prepaid expense	<u>7,774</u>	<u>6,565</u>
	764,178	636,873
Restricted assets available for current liabilities:		
Customer deposits – cash	17,155	15,580
Bond interest and redemption account – investment		
Bond interest and redemption account – cash	<u>211,156</u>	<u>208,875</u>
Total current assets	<u>992,489</u>	<u>861,328</u>
Noncurrent assets:		
Restricted investments:		
Bond reserve - cash	62,664	36,965
Bond reserve - investment	114,368	104,660
Replacement account – investment	<u>100,000</u>	<u>100,000</u>
Total noncurrent restricted assets	<u>277,032</u>	<u>241,625</u>
Capital assets:		
Land	102,928	102,928
Water system	22,671,864	22,449,876
Less: Accumulated depreciation	(7,980,139)	(7,509,231)
Construction in progress	<u>717,393</u>	<u>523,530</u>
Net capital assets	<u>15,512,046</u>	<u>15,567,103</u>
Total noncurrent assets	<u>15,789,078</u>	<u>15,808,728</u>
Total assets	<u>\$ 16,781,567</u>	<u>\$ 16,670,056</u>

CITY OF ADRIAN, MICHIGAN
WATER SYSTEM ENTERPRISE FUND
COMPARATIVE STATEMENTS OF NET ASSETS
June 30, 2007 and 2006

<u>LIABILITIES</u>	<u>June 30, 2007</u>	<u>June 30, 2006</u>
Current liabilities:		
Vouchers payable	\$ 74,320	\$ 51,609
Accrued payroll	12,548	11,524
Due to other funds:		
General	34,691	8,932
Information Technology	4,156	2,431
DWRF Bonds payable – current	<u>240,000</u>	<u>235,000</u>
	365,715	309,496
Current liabilities - payable from restricted assets:		
Customer deposits payable	17,155	15,580
Accrued interest	<u>31,156</u>	<u>32,625</u>
Total current liabilities	<u>414,026</u>	<u>357,701</u>
Noncurrent liabilities:		
Accrued sick and vacation	77,280	86,605
DWRF Bonds payable	<u>4,745,000</u>	<u>4,985,000</u>
Total noncurrent liabilities	<u>4,822,280</u>	<u>5,071,605</u>
Total liabilities	<u>5,236,306</u>	<u>5,429,306</u>
NET ASSETS		
Invested in capital assets, net of related debt	10,527,046	10,347,104
Restricted for debt service	357,032	317,875
Restricted for replacement	100,000	100,000
Unrestricted	<u>561,183</u>	<u>475,771</u>
Total net assets	<u>\$ 11,545,261</u>	<u>\$ 11,240,750</u>

CITY OF ADRIAN, MICHIGAN

WATER SYSTEM ENTERPRISE FUND

**COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN
FUND NET ASSETS**

For Fiscal Years Ended June 30, 2007 and 2006

	<u>June 30, 2007</u>	<u>June 30, 2006</u>
Operating revenues:		
Charges for services	\$ 2,913,774	\$ 2,622,799
Miscellaneous revenues	320,569	287,865
Special assessment	<u>39,022</u>	
Total operating revenues	<u>3,273,365</u>	<u>2,910,664</u>
Operating expenses:		
Cost of services:		
Merchandise	37,063	21,109
Taps and service	7,757	24,156
Purification and pumping	1,035,704	1,002,828
Transmission and distribution	471,312	464,609
Administration and overhead	835,346	817,549
Depreciation	<u>470,909</u>	<u>462,727</u>
Total operating expenses	<u>2,858,091</u>	<u>2,792,978</u>
Operating income	<u>415,274</u>	<u>117,686</u>
Nonoperating revenues (expenses):		
Interest revenue	18,376	12,531
Interest expense	<u>(126,094)</u>	<u>(131,906)</u>
Total nonoperating revenues (expenses)	<u>(107,718)</u>	<u>(119,375)</u>
Income (loss) before transfers	307,556	
Transfers out	<u>(3,045)</u>	
Change in net assets	304,511	(1,689)
Total net assets – beginning of year	<u>11,240,750</u>	<u>11,242,439</u>
Total net assets – end of year	<u><u>\$ 11,545,261</u></u>	<u><u>\$ 11,240,750</u></u>

CITY OF ADRIAN, MICHIGAN

WATER SYSTEM ENTERPRISE FUND

COMPARATIVE STATEMENTS OF CASH FLOWS

For Fiscal Years Ended June 30, 2007 and 2006

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

	<u>June 30, 2007</u>	<u>June 30, 2006</u>
Cash flows from operating activities:		
Cash received from customers	\$ 3,071,674	\$ 3,238,818
Cash paid to suppliers	(1,372,062)	(1,587,815)
Cash paid to employees	<u>(1,000,330)</u>	<u>(978,175)</u>
Net cash provided by (used in) operating activities	<u>699,282</u>	<u>672,828</u>
Cash flows from non capital financing activities:		
Transfer to Information Technology Fund	<u>(3,045)</u>	
Net cash used in capital and related financing activities	<u>(3,045)</u>	
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(415,852)	(412,192)
Principal paid on DWRFBonds	(235,000)	(225,000)
Interest and agent fees on DWRFBonds	<u>(127,563)</u>	<u>(133,312)</u>
Net cash used in capital and related financing activities	<u>(778,415)</u>	<u>(770,504)</u>
Cash flows from investing activities:		
Purchase of investments		
Interest	(9,708)	12,531
Proceeds on investments	<u>18,376</u>	<u>272,870</u>
Net cash provided by investing activities	<u>8,668</u>	<u>285,401</u>
Net increase (decrease) in cash and cash equivalents	(73,510)	187,725
Cash and cash equivalents at beginning of year (including \$261,420 in restricted funds)	<u>383,238</u>	<u>195,513</u>
Cash and cash equivalents at end of year (including \$290,975 in restricted funds)	<u>\$ 309,728</u>	<u>\$ 383,238</u>
Cash flows from noncapital financing activities:		
Transfer to Information Technology Fund	<u>(3,045)</u>	
Net cash used in capital and related financing activities	<u>(3,045)</u>	

CITY OF ADRIAN, MICHIGAN

WATER SYSTEM ENTERPRISE FUND

COMPARATIVE STATEMENTS OF CASH FLOWS

For Fiscal Years Ended June 30, 2007 and 2006

RECONCILIATION OF OPERATING INCOME TO NET CASH
PROVIDED BY (USED IN) OPERATING ACTIVITIES

	<u>June 30, 2007</u>	<u>June 30, 2006</u>
Operating income	\$ 415,274	\$ 117,686
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Depreciation	470,909	462,727
Changes in Assets and Liabilities:		
(Increase) decrease in accounts receivable	(203,033)	32,291
(Increase) decrease in due from other funds	(233)	295,313
(Increase) decrease in inventories	(25,895)	(22,380)
(Increase) decrease in prepaid expense	(1,209)	1,517
Increase (decrease) in vouchers payable	22,712	(156,255)
Increase (decrease) in accrued payroll	1,024	(20,437)
Increase (decrease) in accrued sick and vacation	(9,325)	5,768
Increase (decrease) in due to other funds	27,483	(43,952)
Increase (decrease) in customer deposits	<u>1,575</u>	<u>550</u>
Total adjustments	<u>284,008</u>	<u>555,142</u>
Net cash provided by (used in) operating activities	<u>\$ 699,282</u>	<u>\$ 672,828</u>

CITY OF ADRIAN, MICHIGAN

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES -
ALL AGENCY FUNDS**

For Fiscal Year Ended June 30, 2007

	<u>Balance July 1, 2006</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2007</u>
PAYROLL DEDUCTION FUND				
<u>ASSETS</u>				
Cash	\$ 14,675	\$ 167,904	\$ 168,357	\$ 14,222
<u>LIABILITIES</u>				
Vouchers payable	\$ 14,675	\$ 167,904	\$ 168,357	\$ 14,222
PROPERTY TAX FUND				
<u>ASSETS</u>				
Cash	\$ 19,994	\$ 202,874	\$ 215,295	\$ 7,573
<u>LIABILITIES</u>				
Due to other taxing units	\$ 19,994	\$ 202,874	\$ 215,295	\$ 7,573
TRUST & AGENCY FUND				
<u>ASSETS</u>				
Cash	\$ 295,918	\$ 22,183,512	\$ 22,046,652	\$ 432,778
<u>LIABILITIES</u>				
Restricted deposits	\$ 295,918	\$ 22,183,512	\$ 22,046,652	\$ 432,778
TOTAL - ALL AGENCY FUNDS				
<u>ASSETS</u>				
Cash	\$ 330,587	\$ 22,554,290	\$ 22,430,304	\$ 454,573
<u>LIABILITIES</u>				
Vouchers payable	\$ 14,675	\$ 167,904	\$ 168,357	\$ 14,222
Due to other taxing units	19,994	202,874	215,295	7,573
Restricted deposits	295,918	22,183,512	22,046,652	432,778
Total liabilities	\$ 330,587	\$ 22,554,290	\$ 22,430,304	\$ 454,573

CITY OF ADRIAN, MICHIGAN

**DOWNTOWN DEVELOPMENT AUTHORITY - SPECIAL REVENUE FUND
DISCRETELY PRESENTED COMPONENT UNIT**

COMPARATIVE BALANCE SHEETS

June 30, 2007 and 2006

<u>ASSETS</u>	<u>June 30, 2007</u>	<u>June 30, 2006</u>
Cash and cash equivalents	\$ 207,681	\$ 444,463
Investments	276,573	14,437
Accounts receivable	4,683	9,500
Due from primary government	<u>7,800</u>	<u></u>
Total assets	<u>\$ 496,737</u>	<u>\$ 468,400</u>
 <u>LIABILITIES AND FUND BALANCE</u>		
Liabilities:		
Vouchers payable	\$ 109,773	\$ 93,048
Due to primary government	7,022	258
Accrued payroll	<u>406</u>	<u>310</u>
Total liabilities	<u>117,201</u>	<u>93,616</u>
Fund balance:		
Reserved for:		
Encumbrances	47,984	35,193
Unreserved:		
Undesignated	<u>331,552</u>	<u>339,591</u>
Total fund balance	<u>379,536</u>	<u>374,784</u>
Total liabilities and fund balance	<u>\$ 496,737</u>	<u>\$ 468,400</u>

CITY OF ADRIAN, MICHIGAN

**DOWNTOWN DEVELOPMENT AUTHORITY - SPECIAL REVENUE FUND
DISCRETELY PRESENTED COMPONENT UNIT**

**COMPARATIVE STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE**

For Fiscal Years Ended June 30, 2007 and 2006

	<u>June 30, 2007</u>	<u>June 30, 2006</u>
Revenues:		
Property taxes	\$ 292,188	\$ 284,372
Interest	15,032	8,676
Other	8,382	4,695
Contribution from Primary Government –General	<u>7,800</u>	<u> </u>
Total revenues	<u>323,402</u>	<u>297,743</u>
Expenditures:		
Current:		
Other services	185,290	200,194
Property acquisition		60,363
Contributions to Primary Government	<u>17,000</u>	<u>42,870</u>
Total expenditures	<u>202,290</u>	<u>303,427</u>
Excess of revenues over expenditures	121,112	(5,684)
Other financing uses:		
Transfer out	<u>(116,360)</u>	<u>(121,800)</u>
Net change in fund balance	4,752	(127,484)
Fund balance – beginning of year	374,784	565,923
Prior year adjustment – TIF property taxes	<u> </u>	<u>(63,655)</u>
Fund balance – end of year	<u>\$ 379,536</u>	<u>\$ 374,784</u>

CITY OF ADRIAN, MICHIGAN
DOWNTOWN DEVELOPMENT AUTHORITY - DEBT SERVICE FUND
DISCRETELY PRESENTED COMPONENT UNIT

COMPARATIVE BALANCE SHEETS

June 30, 2007 and 2006

<u>ASSETS</u>	<u>June 30, 2007</u>	<u>June 30, 2006</u>
Cash	\$ 15,950	\$ 16,224
Total assets	<u>\$ 15,950</u>	<u>\$ 16,224</u>
 <u>LIABILITIES AND FUND BALANCE</u>		
Liabilities:		
Accrued interest payable	\$ 15,855	\$ 14,215
Fund balance:		
Reserved for debt retirement	<u>95</u>	<u>2,009</u>
Total liabilities and fund balance	<u>\$ 15,950</u>	<u>\$ 16,224</u>

CITY OF ADRIAN, MICHIGAN

**DOWNTOWN DEVELOPMENT AUTHORITY - DEBT SERVICE FUND
DISCRETELY PRESENTED COMPONENT UNIT**

**COMPARATIVE STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE**

For Fiscal Years Ended June 30, 2007 and 2006

	<u>June 30, 2007</u>	<u>June 30, 2006</u>
Revenues:		
Interest	\$ 151	\$ 50
Total revenues	<u>151</u>	<u>50</u>
Expenditures:		
Debt Service:		
Principal retirement	85,000	85,000
Interest and fiscal charges	<u>33,425</u>	<u>38,185</u>
Total expenditures	<u>118,425</u>	<u>123,185</u>
Deficiency of revenues over expenditures	(118,274)	(123,135)
Other financing sources:		
Transfers from DDA - Special Revenue	<u>116,360</u>	<u>121,800</u>
Net change in fund balance	(1,914)	(1,335)
Fund balance - beginning of year	<u>2,009</u>	<u>3,344</u>
Fund balance - end of year	<u>\$ 95</u>	<u>\$ 2,009</u>

CITY OF ADRIAN, MICHIGAN

**LOCAL DEVELOPMENT FINANCE AUTHORITY - DEBT SERVICE FUND
DISCRETELY PRESENTED COMPONENT UNIT**

COMPARATIVE BALANCE SHEETS

June 30, 2007 and 2006

<u>ASSETS</u>	<u>June 30, 2007</u>	<u>June 30, 2006</u>
Cash	\$ 55,842	\$ 47,439
Total assets	<u>\$ 55,842</u>	<u>\$ 47,439</u>
<u>FUND BALANCE</u>		
Reserved for debt retirement	\$ 55,842	\$ 47,439
Total fund balance	<u>\$ 55,842</u>	<u>\$ 47,439</u>

CITY OF ADRIAN, MICHIGAN

LOCAL DEVELOPMENT FINANCE AUTHORITY - DEBT SERVICE FUND

**COMPARATIVE STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE**

For Fiscal Years Ended June 30, 2007 and 2006

	<u>June 30, 2007</u>	<u>June 30, 2006</u>
Revenues:		
Property taxes	\$ 123,735	\$ 123,722
Interest	<u>1,744</u>	<u>322</u>
Total revenues	<u>125,479</u>	<u>124,044</u>
Expenditures:		
Debt Service:		
Principal retirement – City	7,500	7,500
Interest – City	1,200	1,800
Interest – Jacuzzi Brands	<u>108,376</u>	<u>114,421</u>
Total expenditures	<u>117,076</u>	<u>123,721</u>
Net change in fund balance	8,403	323
Fund balance - beginning of year	<u>47,439</u>	<u>47,116</u>
Fund balance - end of year	<u>\$ 55,842</u>	<u>\$ 47,439</u>

(PAGE 1 OF 6)

CITY OF ADRIAN, MICHIGAN
SCHEDULE OF INDEBTEDNESS

June 30, 2007

<u>PRIMARY GOVERNMENT</u>	<u>Date Of Issue</u>	<u>Amount Of Issue</u>	<u>Interest Rate</u>
Parks & Recreation	05/23/03	\$ 1,200,000	3.64%
Wastewater System RevenueBonds (DWRF Loan)	09/26/02	\$ 8,920,000	2.50%

CITY OF ADRIAN, MICHIGAN
SCHEDULE OF INDEBTEDNESS

June 30, 2007

<u>Date of Maturity</u>	<u>June 30, 2006</u>	<u>June 30, 2007</u>	<u>Annual Interest Payable</u>
11/23/06 – 05/23/07	113,072		\$ 31,167
11/23/07 – 05/23/08	117,225	117,225	27,014
11/23/08 – 05/23/09	121,531	121,531	22,708
11/23/09 – 05/23/10	125,995	125,995	18,244
11/23/10 – 05/23/11	130,623	130,623	13,618
11/23/11 – 05/23/12	135,420	135,420	8,818
11/23/12 – 05/23/13	<u>140,394</u>	<u>140,394</u>	<u>3,844</u>
	<u>\$ 884,260</u>	<u>\$ 771,188</u>	<u>\$ 125,413</u>
10/01/06 – 04/01/07	365,000		200,812
10/01/07 – 04/01/08	375,000	375,000	191,562
10/01/08 – 04/01/09	385,000	385,000	182,062
10/01/09 – 04/01/10	395,000	395,000	172,312
10/01/10 – 04/01/11	405,000	405,000	162,312
10/01/11 – 04/01/12	415,000	415,000	152,063
10/01/12 – 04/01/13	425,000	425,000	141,563
10/01/13 – 04/01/14	435,000	435,000	130,813
10/01/14 – 04/01/15	445,000	445,000	119,812
10/01/15 – 04/01/16	460,000	460,000	108,500
10/01/16 – 04/01/17	470,000	470,000	96,875
10/01/17 – 04/01/18	480,000	480,000	85,000
10/01/18 – 04/01/19	495,000	495,000	72,813
10/01/19 – 04/01/20	505,000	505,000	60,313
10/01/20 – 04/01/21	520,000	520,000	47,500
10/01/21 – 04/01/22	535,000	535,000	34,313
10/01/22 – 04/01/23	545,000	545,000	20,813
10/01/2023	<u>560,000</u>	<u>560,000</u>	<u>7,000</u>
	<u>\$ 8,215,000</u>	<u>\$ 7,850,000</u>	<u>\$ 1,986,438</u>

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CITY OF ADRIAN, MICHIGAN
SCHEDULE OF INDEBTEDNESS

June 30, 2007

<u>PRIMARY GOVERNMENT</u>	<u>Date Of Issue</u>	<u>Amount Of Issue</u>	<u>Interest Rate</u>
Water Supply System Revenue Bonds (DWRP Loan)	09/26/02	\$ 5,665,000	2.50%
Wastewater System Revenue Bonds (SRF Loan)	09/22/05	\$ 2,040,000	1.625%

CITY OF ADRIAN, MICHIGAN

SCHEDULE OF INDEBTEDNESS

June 30, 2007

<u>Date of Maturity</u>	<u>June 30, 2006</u>	<u>June 30, 2007</u>	<u>Annual Interest Payable</u>
10/01/06 – 04/01/07	\$ 235,000	\$	\$ 127,563
10/01/07 – 04/01/08	240,000	240,000	121,625
10/01/08 – 04/01/09	245,000	245,000	115,562
10/01/09 – 04/01/10	250,000	250,000	109,375
10/01/10 – 04/01/11	255,000	255,000	103,063
10/01/11 – 04/01/12	265,000	265,000	96,562
10/01/12 – 04/01/13	270,000	270,000	89,875
10/01/13 – 04/01/14	275,000	275,000	83,063
10/01/14 – 04/01/15	285,000	285,000	76,062
10/01/15 – 04/01/16	290,000	290,000	68,875
10/01/16 – 04/01/17	300,000	300,000	61,500
10/01/17 – 04/01/18	305,000	305,000	53,938
10/01/18 – 04/01/19	315,000	315,000	46,187
10/01/19 – 04/01/20	320,000	320,000	38,250
10/01/20 – 04/01/21	330,000	330,000	30,125
10/01/21 – 04/01/22	340,000	340,000	21,750
10/01/22 – 04/01/23	345,000	345,000	13,188
10/01/2023	<u>355,000</u>	<u>355,000</u>	<u>4,437</u>
	<u>\$ 5,220,000</u>	<u>\$ 4,985,000</u>	<u>\$ 1,261,000</u>
10/1/06 – 4/1/07			33,150
10/1/07 – 4/1/08		85,000	32,469
10/1/08 – 4/1/09		90,000	31,037
10/1/09 – 4/1/10		90,000	29,575
10/1/10 – 4/1/11		90,000	28,113
10/1/11 – 4/1/12		95,000	26,610
10/1/12 – 4/1/13		95,000	25,066
10/1/13 – 4/1/14		95,000	23,522
10/1/14 – 4/1/15		100,000	21,938
10/1/15 – 4/1/16		100,000	20,313
10/1/16 – 4/1/17		100,000	18,688
10/1/17 – 4/1/18		100,000	17,063
10/1/18 – 4/1/19		105,000	15,397
10/1/19 – 4/1/20		105,000	13,691
10/1/20 – 4/1/21		105,000	11,985
10/1/21 – 4/1/22		110,000	10,238
10/1/22 – 4/1/23		110,000	8,450
10/1/23 – 4/1/24		115,000	6,622
10/1/24 – 4/1/25		115,000	4,753
10/1/25 – 4/1/26		115,000	2,884
10/1/26 – 4/1/27		<u>120,000</u>	<u>975</u>
		<u>\$ 2,040,000</u>	<u>\$ 382,529</u>

CITY OF ADRIAN, MICHIGAN
SCHEDULE OF INDEBTEDNESS

June 30, 2007

<u>PRIMARY GOVERNMENT</u>	<u>Date Of Issue</u>	<u>Amount Of Issue</u>	<u>Interest Rate</u>
Wastewater System Revenue Bonds, Series 2006B (SRF Loan)	12/15/05	Not to exceed \$7,090,000	1.625%
Accumulated vacation and sick pay - long term			
TOTAL - PRIMARY GOVERNMENT			

<u>COMPONENT UNITS - DISCRETELY PRESENTED</u>	<u>Date Of Issue</u>	<u>Amount Of Issue</u>	<u>Interest Rate</u>
Downtown Development Authority Bonds (Limited Tax General Obligation Bonds)	10/01/92	\$ 1,025,000	6.4
			6.4
			6.4
			6.4
			6.4
			6.4

**Local Development Finance Authority -
Reimbursement Obligation to Third
Party**

**TOTAL - COMPONENT UNITS -
DISCRETELY PRESENTED**

CITY OF ADRIAN, MICHIGAN

SCHEDULE OF INDEBTEDNESS

June 30, 2007

<u>Date of Maturity</u>	<u>June 30, 2006</u>	<u>June 30, 2007</u>	<u>Annual Interest Payable</u>
Not available		<u>Loan Balance at 6/30/2007</u> <u>\$ 6,456,529</u>	<u>Not available</u>
	<u>\$ 454,433</u>	<u>\$ 572,402</u>	
	<u>\$ 17,856,724</u>	<u>\$ 22,675,119</u>	
03/01/2007	\$ 85,000	\$	\$
03/01/2008	85,000	85,000	25,920
03/01/2009	80,000	80,000	20,480
03/01/2010	80,000	80,000	15,360
03/01/2011	80,000	80,000	10,240
03/01/2012	<u>80,000</u>	<u>80,000</u>	<u>5,120</u>
	<u>\$ 490,000</u>	<u>\$ 405,000</u>	<u>\$ 108,480</u>
	<u>\$ 764,100</u>	<u>\$ 764,100</u>	(Payments dependent on tax revenues available.)
	<u>\$ 1,254,100</u>	<u>\$ 1,169,100</u>	

**CITY OF ADRIAN
FY2006-07 COMPREHENSIVE ANNUAL FINANCIAL REPORT**

STATISTICAL SECTION

This part of the City of Adrian's Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City's overall financial health.

<u>Contents</u>	<u>Pages</u>
Financial Trends <i>These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.</i>	155-161
Revenue Capacity <i>These schedules contain information to help the reader assess the City's most significant local revenue source, the property tax.</i>	162-165
Debt Capacity <i>These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.</i>	166-170
Demographic and Economic Information <i>These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.</i>	171-172
Operating Information <i>These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs.</i>	173-175

Sources: Unless otherwise noted, the information in these schedules is derived from the Comprehensive Annual Financial Reports for the relevant year. The City implemented GASB Statement 34 in FY2002-03: schedules presenting government-wide information include information beginning in that year.

EXHIBIT B-1

CITY OF ADRIAN
NET ASSETS BY COMPONENT
LAST FIVE FISCAL YEARS
(accrual basis of accounting)

	FISCAL YEAR				
	2002-03	2003-04	2004-05	2005-06	2006-07
Governmental Activities					
Invested in Capital Assets, Net of Related Debt	\$24,050,841	\$23,761,251	\$24,026,248	\$23,276,411	\$24,323,513
Restricted	4,711,401	4,747,830	3,876,032	3,869,047	5,199,264
Unrestricted	7,018,815	6,856,377	6,368,174	6,027,334	6,135,998
Total Governmental Activities Net Assets	<u>\$35,781,057</u>	<u>\$35,365,458</u>	<u>\$34,270,454</u>	<u>\$33,172,792</u>	<u>\$35,658,775</u>
Business-type Activities					
Invested in Capital Assets, Net of Related Debt	\$27,647,272	\$26,559,550	\$28,022,181	\$28,323,256	\$27,846,396
Restricted	1,295,005	1,505,243	1,380,000	1,417,981	1,630,058
Unrestricted	3,732,120	4,894,449	2,796,672	1,568,065	2,001,967
Total Business-type Activities Net Assets	<u>\$32,674,397</u>	<u>\$32,959,242</u>	<u>\$32,198,853</u>	<u>\$31,309,302</u>	<u>\$31,478,421</u>
Primary Government					
Invested in Capital Assets, Net of Related Debt	\$51,698,113	\$50,320,801	\$52,048,429	\$51,599,667	\$52,169,909
Restricted	6,006,406	6,253,073	5,256,032	5,287,028	6,829,322
Unrestricted	10,750,935	11,750,826	9,164,846	7,595,399	8,137,965
Total Primary Government Net Assets	<u>\$68,455,454</u>	<u>\$68,324,700</u>	<u>\$66,469,307</u>	<u>\$64,482,094</u>	<u>\$67,137,196</u>

CITY OF ADRIAN
CHANGES IN NET ASSETS
LAST FIVE FISCAL YEARS
(accrual basis of accounting)

EXHIBIT B-2

	FISCAL YEAR				
	2002-03	2003-04	2004-05	2005-06	2006-07
EXPENSES					
Governmental Activities:					
General Government	\$1,807,739	\$1,684,439	\$2,655,280	\$2,450,722	\$2,511,362
Public Safety	4,397,169	4,601,589	4,693,255	4,912,898	5,011,563
Public Works	920,125	1,076,086	784,985	1,122,058	1,169,030
Culture and Recreation	2,085,016	1,915,082	2,188,354	2,447,601	1,871,000
Other Services	1,300,251	1,985,445	1,631,127	1,668,073	2,105,016
Community & Economic Development	1,143,654	619,075	278,898	599,690	543,450
Highways, Streets and Bridges	2,118,957	2,212,509	2,513,058	2,418,910	1,153,185
Interest on Long-Term Debt	87,538	78,673	69,369	3,112	27,014
Total Governmental Activities Expenses	\$13,860,449	\$14,172,898	\$14,814,326	\$15,623,064	\$14,391,620
Business-type Activities:					
Wastewater System	\$2,604,671	\$2,804,095	\$3,465,380	\$3,731,181	\$3,788,575
Water System	2,697,494	2,425,881	3,034,751	2,924,884	2,984,185
Dial-A-Ride System	413,435	440,192	490,660	455,245	487,901
Automobile Parking System	103,545	112,969	152,681	116,399	91,961
Storm Water Utility	165,359	207,851	344,579	227,688	234,562
Total Business-type Activities Expenses	\$5,984,504	\$5,990,988	\$7,488,051	\$7,455,397	\$7,587,184
Total Primary Government Expenses	\$19,844,953	\$20,163,886	\$22,302,377	\$23,078,461	\$21,978,804
PROGRAM REVENUES (Incl. Grants & Contributions)					
Governmental Activities:					
General Government	\$177,973	\$395,718	\$1,113,947	\$978,001	\$1,039,539
Public Safety	633,870	352,914	449,253	595,219	600,515
Public Works	1,786	1,877	991	27,872	1,963
Culture and Recreation	849,317	1,154,198	1,297,964	1,150,675	2,144,096
Other Services	907,323	893,914	273,882	209,046	312,546
Community & Economic Development	1,252,159	592,145	145,189	469,604	687,744
Highways, Streets and Bridges	513,438	411,574	152,322	194,946	882,452
Total Governmental Activities Program Revenues	\$4,335,866	\$3,802,340	\$3,433,548	\$3,625,363	\$5,668,855

CITY OF ADRIAN
CHANGES IN NET ASSETS
LAST FIVE FISCAL YEARS
(accrual basis of accounting)

EXHIBIT B-2

	FISCAL YEAR				
	2002-03	2003-04	2004-05	2005-06	2006-07
Business-type Activities:					
Wastewater System	\$2,275,150	\$2,543,309	\$2,673,090	\$2,711,762	\$3,461,125
Water System	2,888,132	2,773,621	2,900,909	2,910,664	3,273,365
Dial-A-Ride System	366,570	318,273	299,965	426,561	408,951
Automobile Parking System	100,554	111,815	80,239	46,841	115,481
Storm Water Utility	252,937	263,965	363,813	281,679	280,598
Total Business-type Activities Program Revenues	<u>\$5,883,343</u>	<u>\$6,010,983</u>	<u>\$6,318,016</u>	<u>\$6,377,507</u>	<u>\$7,539,520</u>
Total Primary Government Program Revenues	\$10,219,209	\$9,813,323	\$9,751,564	\$10,002,870	\$13,208,375
NET (EXPENSES)/REVENUE					
Governmental Activities	(\$9,524,583)	(\$10,370,558)	(\$11,380,778)	(\$11,997,701)	(\$8,722,765)
Business-type Activities	<u>(101,161)</u>	<u>19,995</u>	<u>(1,170,035)</u>	<u>(1,077,890)</u>	<u>(47,664)</u>
Total Primary Government Net Expense	<u>(\$9,625,744)</u>	<u>(\$10,350,563)</u>	<u>(\$12,550,813)</u>	<u>(\$13,075,591)</u>	<u>(\$8,770,429)</u>
GENERAL REVENUES AND OTHER CHANGES IN NET ASSETS					
Governmental Activities:					
Property Taxes	\$5,914,288	\$6,041,046	\$6,528,844	\$6,869,387	\$7,070,336
Sales Tax	2,621,990	2,551,255	2,435,992	2,408,301	2,383,155
Motor Vehicle Fuel Tax	1,227,987	1,337,898	1,347,902	1,309,222	1,299,759
Grants and Contributions (not restricted to specific programs)	660,115	11,008	12,346	75,785	13,336
Unrestricted Investment Earnings	248,534	170,879	236,936	358,274	549,528
Transfers	<u>(100,433)</u>	<u>(157,127)</u>	<u>(276,246)</u>	<u>(120,930)</u>	<u>(107,366)</u>
Total Governmental Activities	\$10,572,481	\$9,954,959	\$10,285,774	\$10,900,039	\$11,208,748
Business-type Activities:					
Unrestricted Investment Earnings	\$118,529	\$95,723	\$133,400	\$67,409	\$109,417
Transfers	<u>100,433</u>	<u>169,127</u>	<u>276,246</u>	<u>120,930</u>	<u>107,366</u>
Total Business-type Activities	<u>\$218,962</u>	<u>\$264,850</u>	<u>\$409,646</u>	<u>\$188,339</u>	<u>\$216,783</u>
Total Primary Government	\$10,791,443	\$10,219,809	\$10,695,420	\$11,088,378	\$11,425,531
CHANGE IN NET ASSETS					
Governmental Activities	\$1,047,898	(\$415,599)	(\$1,095,004)	(\$1,097,662)	\$2,485,983
Business-type Activities	<u>117,801</u>	<u>284,845</u>	<u>(760,389)</u>	<u>(889,551)</u>	<u>169,119</u>
Total Primary Government	<u>\$1,165,699</u>	<u>(\$130,754)</u>	<u>(\$1,855,393)</u>	<u>(\$1,987,213)</u>	<u>\$2,655,102</u>

CITY OF ADRIAN
FUND BALANCES - GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(modified accrual basis of accounting)

	FISCAL YEAR									
	FY1997-98	FY1998-99	FY1999-2000	FY2000-01	FY2001-02	FY2002-03	FY2003-04	FY2004-05	FY2005-06	FY2006-07
General Fund										
Reserved	\$133,104	\$107,722	\$146,824	\$150,254	\$151,423	\$1,880,375	\$927,493	\$804,255	\$485,350	\$803,801
Unreserved	4,450,879	5,273,590	5,746,147	6,647,473	7,051,521	5,588,179	6,309,600	5,758,113	5,558,816	5,319,717
Total General Fund	\$4,583,983	\$5,381,312	\$5,892,971	\$6,797,727	\$7,202,944	\$7,468,554	\$7,237,093	\$6,562,368	\$6,044,166	\$6,123,518
All Other Governmental Funds										
Reserved	\$553,323	\$465,722	\$410,381	\$438,442	\$434,369	\$1,856,968	\$2,008,395	\$1,319,835	\$1,643,008	\$2,221,965
Unreserved, Reported in:										
Special Revenue Funds	\$2,182,189	\$2,574,813	\$2,815,685	\$2,293,233	\$2,430,783	\$2,854,433	\$2,739,435	\$2,489,803	\$2,159,189	\$2,414,421
Endowment Fund	0	0	0	0	0	0	0	66,394	66,850	562,878
Debt Service Funds	0	0	0	0	0	0	0	0	0	0
Total All Other Governmental Funds	\$2,735,512	\$3,040,535	\$3,226,066	\$2,731,675	\$2,865,152	\$4,711,401	\$4,747,830	\$3,876,032	\$3,869,047	\$5,199,264
Total Governmental Funds	<u>\$7,319,495</u>	<u>\$8,421,847</u>	<u>\$9,119,037</u>	<u>\$9,529,402</u>	<u>\$10,068,096</u>	<u>\$12,179,955</u>	<u>\$11,984,923</u>	<u>\$10,438,400</u>	<u>\$9,913,213</u>	<u>\$11,322,782</u>

CITY OF ADRIAN
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(modified accrual basis of accounting)

	FISCAL YEAR									
	FY1997-98	FY1998-99	FY1999-2000	FY2000-01	FY2001-02	FY2002-03	FY2003-04	FY2004-05	FY2005-06	FY2006-07
REVENUES:										
Taxes	\$5,097,850	\$5,335,941	\$5,432,018	\$5,549,836	\$5,666,051	\$5,843,118	\$5,964,834	\$6,433,580	\$6,659,027	\$6,976,298
Other Tax Related Revenue	87,496	67,808	103,369	63,917	57,364	70,670	74,212	87,764	210,360	100,373
Licenses & Permits	262,312	152,262	155,934	173,988	178,051	280,389	184,207	262,278	486,327	279,866
Intergovernmental - Federal	58,074	138,077	230,836	731,182	519,158	800,346	89,145	13,141	281,485	444,147
Intergovernmental - State	3,770,900	3,932,824	4,094,996	4,316,144	4,213,929	4,160,844	3,988,935	3,958,348	3,953,373	4,616,318
Charges for Services	58,763	71,887	62,870	67,454	64,858	66,458	65,345	63,631	64,380	74,099
Use and Admission Charges	326,043	300,442	307,619	295,690	321,521	301,299	314,117	336,219	363,084	340,765
Fines and Fees	262,887	266,368	287,544	304,369	291,757	275,172	326,021	324,033	290,659	248,759
Investment Earnings	403,636	439,577	490,747	613,782	416,449	286,010	170,879	236,936	358,274	549,528
Fee Trust - for beautification purposes	1,169,173	638,527	377,319	884,164	642,379	1,415,214	1,282,212	763,001	656,057	1,173,270
Other	1,324,225	694,931	798,058	607,408	1,196,707	1,262,351	1,322,348	806,513	705,528	920,062
Special Assessments	0	0	0	0	207,843	246,409	130,170	24,944	84,398	109,075
Contribution from DDA	0	0	0	0	0	0	0	46,834	42,870	12,000
Public Contributions	0	0	0	0	0	0	0	0	0	496,028
Administrative Fees	0	0	0	0	0	0	0	0	0	129,097
Total Revenues	\$12,821,359	\$12,038,644	\$12,341,310	\$13,607,934	\$13,776,067	\$15,008,280	\$13,912,425	\$13,357,222	\$14,155,822	\$16,469,685
EXPENDITURES:										
General Government	\$1,350,878	\$1,455,220	\$1,353,112	\$1,437,634	\$1,505,288	\$1,822,635	\$1,772,172	\$2,189,291	\$2,069,689	\$2,056,289
Public Safety	3,462,670	3,947,172	4,333,602	4,026,042	4,253,144	4,533,808	4,544,000	4,818,431	4,833,758	5,197,748
Public Works	1,049,060	888,753	880,541	899,738	1,110,080	904,533	912,372	1,098,841	965,312	1,032,473
Culture & Recreation	1,756,115	1,688,061	1,794,139	1,979,850	2,114,545	2,232,404	2,272,317	2,260,361	3,093,654	3,078,788
Other Services	1,797,897	1,220,051	1,256,400	2,714,927	2,066,253	2,782,935	1,412,504	1,062,495	359,417	773,074
Community & Economic Development	0	0	0	0	0	1,424,600	615,400	276,273	595,793	537,168
Capital Outlay	1,772,451	1,506,421	1,817,510	1,831,498	1,992,544	1,226,250	2,144,444	2,644,686	1,867,403	2,009,137
Debt Service										
Principal Retirement	150,000	184,423	150,000	187,691	78,665	83,253	189,583	198,448	728,100	113,072
Interest and Fiscal Charges	40,200	29,602	17,700	66,389	54,217	49,629	87,538	78,673	41,314	31,167
Total Expenditures	\$11,379,271	\$10,919,703	\$11,603,004	\$13,143,769	\$13,174,736	\$15,060,047	\$13,950,330	\$14,627,499	\$14,554,440	\$14,828,916
Excess of Revenues over/(under) Expenditures	\$1,442,088	\$1,118,941	\$738,306	\$464,165	\$601,331	(\$51,767)	(\$37,905)	(\$1,270,277)	(\$398,618)	\$1,640,769
Other Financing Sources (Uses):										
Transfers In	\$1,486,734	\$1,055,232	\$755,861	\$1,371,955	\$1,163,016	\$1,888,272	\$2,364,135	\$1,385,504	\$1,441,182	\$1,860,358
Transfers Out	(1,499,863)	(1,074,956)	(793,557)	(1,422,200)	(1,222,745)	(1,988,705)	(2,521,262)	(1,661,750)	(1,567,751)	(2,091,558)
Loan Proceeds	0	0	0	0	0	1,200,000	0	0	0	0
Total Other Financing Sources (Uses)	(\$13,129)	(\$19,724)	(\$37,696)	(\$50,245)	(\$59,729)	\$1,099,567	(\$157,127)	(\$276,246)	(\$126,569)	(\$231,200)
NET CHANGES IN FUND BALANCES	\$1,428,959	\$1,099,217	\$700,610	\$413,920	\$541,602	\$1,047,800	(\$195,032)	(\$1,546,523)	(\$525,187)	\$1,409,569
Debt Service as a Percentage of Non-Capital Expenditures	2.0%	2.3%	1.7%	2.2%	1.2%	1.0%	2.3%	2.3%	6.1%	1.1%

EXHIBIT B-5

CITY OF ADRIAN
PROGRAM REVENUES BY FUNCTION/PROGRAM
LAST FIVE FISCAL YEARS
 (accrual basis of accounting)

Function/Program	FISCAL YEAR				
	2002-03	2003-04	2004-05	2005-06	2006-07
Governmental Activities:					
General Government	\$177,973	\$395,718	\$1,113,947	\$978,001	\$1,039,539
Public Safety	633,870	352,914	449,253	595,219	600,515
Public Works	1,786	1,877	991	27,872	1,963
Culture and Recreation	849,317	1,154,198	1,297,964	1,150,675	2,144,096
Other Services	907,323	893,914	273,882	209,046	312,546
Community & Economic Development	1,252,159	592,145	145,189	469,604	687,744
Highways, Streets and Bridges	513,438	411,574	152,322	194,946	882,452
Total Governmental Activities	\$4,335,866	\$3,802,340	\$3,433,548	\$3,625,363	\$5,668,855
Business-type Activities:					
Wastewater System	\$2,275,150	\$2,543,309	\$2,673,090	\$2,711,762	\$3,461,125
Water System	2,888,132	2,773,621	2,900,909	2,910,664	3,273,365
Dial-A-Ride System	366,570	318,273	299,965	426,561	408,951
Automobile Parking System	100,554	111,815	80,239	46,841	115,481
Storm Water Utility	252,937	263,965	363,813	281,679	280,598
Total Business-type Activities	\$5,883,343	\$6,010,983	\$6,318,016	\$6,377,507	\$7,539,520
Total Primary Government	\$10,219,209	\$9,813,323	\$9,751,564	\$10,002,870	\$13,208,375

EXHIBIT B-6

CITY OF ADRIAN
TAX REVENUES BY SOURCE - GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(modified accrual basis of accounting)

FISCAL YEAR	PROPERTY TAXES	SALES TAX	MOTOR VEH. FUEL TAX	OTHER	TOTAL
1997-98	5,097,850	2,573,956	1,196,944	87,496	8,956,246
1998-99	5,335,941	2,697,145	1,235,679	67,808	9,336,573
1999-00	5,432,018	2,827,815	1,267,181	103,369	9,630,383
2000-01	5,549,836	3,010,144	1,306,000	63,917	9,929,897
2001-02	5,666,051	2,944,150	1,269,779	57,364	9,937,344
2002-03	5,843,118	2,621,990	1,488,524	70,670	10,024,302
2003-04	5,964,834	2,551,255	1,391,904	74,212	9,982,205
2004-05	6,433,580	2,435,992	1,469,145	87,764	10,426,481
2005-06	6,659,027	2,408,301	1,477,324	210,360	10,755,012
2006-07	6,976,298	2,383,155	1,299,758	100,373	10,759,584
Change					
2006-07 over/(under) 1997-98					
Amount	\$1,878,448	(\$190,801)	\$102,814	\$12,877	\$1,803,338
Percent	36.8%	-7.4%	8.6%	14.7%	20.1%
Change					
2006-07 over/(under) 2005-06					
Amount	\$317,271	(\$25,146)	(\$177,566)	(\$109,987)	\$4,572
Percent	4.8%	-1.0%	-12.0%	-52.3%	0.0%

EXHIBIT C-1

CITY OF ADRIAN
 ASSESSED VALUE AND TAXABLE VALUE OF REAL AND PERSONAL PROPERTY
 LAST TEN FISCAL YEARS

FISCAL YEAR	RESIDENTIAL PROPERTY	COMMERCIAL PROPERTY	INDUSTRIAL PROPERTY	PERSONAL PROPERTY	TOTAL ASSESSED VALUE	LESS: TAX-EXEMPT PROPERTY	TOTAL TAXABLE VALUE	TOTAL DIRECT TAX RATE
1997-98	186,381,200	82,940,200	15,173,100	55,128,500	339,623,000	27,099,237	312,523,763	16.1124
1998-99	197,750,500	85,697,900	15,657,000	58,388,600	357,494,000	31,430,274	326,063,726	16.0524
1999-00	207,205,000	91,202,200	16,182,900	63,786,600	378,376,700	37,218,512	341,158,188	15.7750
2000-01	219,406,000	96,347,600	16,846,400	68,333,300	400,933,300	42,946,813	357,986,487	15.5828
2001-02	232,638,900	101,140,300	18,552,100	66,895,200	419,226,500	48,679,000	370,547,500	15.2443
2002-03	245,113,050	107,306,900	17,777,500	66,333,700	436,531,150	52,971,038	383,560,112	15.2426
2003-04	259,696,900	112,120,800	16,988,700	65,246,100	454,052,500	56,828,160	397,224,340	15.7340
2004-05	276,738,900	117,518,100	16,967,300	62,610,900	473,835,200	63,540,690	410,294,510	15.7340
2005-06	302,506,900	126,012,800	16,574,500	62,559,100	507,653,300	80,749,280	426,904,020	15.6912
2006-07	306,196,000	145,415,900	19,690,800	62,098,200	533,400,900	82,677,099	450,723,801	15.6039

Source: Lenawee County Equalization Report

EXHIBIT C-2

CITY OF ADRIAN
DIRECT AND OVERLAPPING PROPERTY TAX RATES
LAST TEN FISCAL YEARS

FISCAL YEAR	CITY DIRECT RATES					OVERLAPPING HOMESTEAD TAX RATES				
	BASIC RATE	GENERAL OBLIGATION DEBT SERVICE	SOLID WASTE COLLECTION	LOCAL STREET IMPROVEMENTS	TOTAL DIRECT TAX RATE	INTERMEDIATE SCHOOL DISTRICT*	LENAWEE COUNTY	ADRIAN SCHOOL DISTRICT	MADISON SCHOOL DISTRICT	
1997-98	14.0124	0.6000	0.5000	1.0000	16.1124	6.6949	5.7385	7.2000	6.0000	
1998-99	14.0124	0.5400	0.5000	1.0000	16.0524	6.6849	5.9178	7.2000	7.5500	
1999-00	13.9282	0.5250	0.3254	0.9964	15.7750	6.6073	5.6554	7.0000	7.7000	
2000-01	13.8655	0.4000	0.3258	0.9915	15.5828	7.7073	5.6420	7.0000	7.8000	
2001-02	13.8544	0.0000	0.3992	0.9907	15.2443	7.6446	5.6165	6.9500	7.8000	
2002-03	13.8198	0.0000	0.4338	0.9890	15.2426	7.5465	5.8191	6.0000	7.7500	
2003-04	13.7507	0.0000	1.0000	0.9833	15.7340	7.4867	5.7730	6.0000	7.8000	
2004-05	13.7507	0.0000	1.0000	0.9833	15.7340	7.4102	5.7145	6.0000	6.9300	
2005-06	13.7108	0.0000	1.0000	0.9804	15.6912	7.2900	5.6270	9.4600	7.3000	
2006-07	13.6293	0.0000	1.0000	0.9746	15.6039	7.2898	5.6270	10.3200	8.6000	

Source: Lenawee County Apportionment Report

Note: Adrian and Madison School Districts include State Education Tax (SET) on Homesteads, as well as School Debt millage and School Building & Site millage.

* Includes Special Education and Vocational Education

CITY OF ADRIAN
PRINCIPAL PROPERTY TAX PAYERS
EXHIBIT C-3
CURRENT YEAR AND NINE YEARS AGO

		FY2006-07		FY1997-98		
TAXPAYER	TYPE OF BUSINESS	TAXABLE		PERCENT	TAXABLE	PERCENT
		VALUE	RANK	OF TOTAL TAXABLE VALUE		
DELPHI AUTOMOTIVE	MANUFACTURING	17,514,400	1	3.89%	15,323,150	1
ANDERSON DEVELOPMENT	MANUFACTURING	14,696,000	2	3.26%	6,147,911	2
INERGY AUTOMOTIVE	MANUFACTURING	13,724,600	3	3.05%	\$2,173,000	12
EQUITY ASSETS MANAGEMENT	RETAIL-MALL	7,885,300	4	1.75%	5,077,200	3
SENAFAR INVESTMENTS, LLC	RETAIL	6,800,200	5	1.51%		
MEIJER INC.	RETAIL	6,464,100	6	1.43%	4,163,500	4
WYATT REAL ESTATE (VENCHURS)	MANUFACTURING	5,740,200	7	1.27%	3,137,799	7
ADRIAN STEEL	MANUFACTURING	4,538,200	8	1.01%	2,687,209	9
BIOLAB, INC.	MANUFACTURING	4,219,100	9	0.94%	2,792,598	8
CONSUMERS ENERGY	UTILITY	3,859,600	10	0.86%	3,281,661	6
FISCHER FAMILY TRUST	HOUSING	3,218,000	11	0.71%		
CITIZENS GAS & FUEL COMPANY	UTILITY	3,061,400	14	0.68%	3,335,826	5
IXTLAN PLASTICS TECHNOLOGY	MANUFACTURING	3,038,800	13	0.67%		
SOLVAY AUTOMATIVE, INC.	MANUFACTURING	2,866,100	14	0.64%		
PEDCOR INVESTMENTS	HOUSING	2,670,900	15	0.59%		
ADRIAN FABRICATORS	MANUFACTURING	2,535,000	16	0.56%		
NOB HILL APARTMENTS, LLC	HOUSING	2,505,500	17	0.56%		
BANK OF LANAWEE	BANKING	2,180,800	18	0.48%		
TRI-STATE MICHIGAN ASSOCIATES	LODGING	2,089,500	19	0.46%		
HJM DEVELOPMENT, LLC	INSURANCE	2,065,700	20	0.46%		
SIENA HEIGHTS UNIVERSITY	EDUCATION	2,063,900	21	0.46%		
DURA, CORP.	MANUFACTURING	1,960,800	22	0.44%	1,850,889	13
KLM ADRIAN, LLC	RETAIL PROP MGT				2,482,600	10
GARDEN STATE TANNING	MANUFACTURING				2,280,111	11
FOCUS VENTURES PARTNERS	LODGING				1,699,100	14
UARCO, INC.	MANUFACTURING				1,601,504	15
TOTAL		\$115,698,100		25.67%	\$36,562,997	
	TAXABLE VALUE	\$450,723,801			\$318,194,300	

SOURCE: City of Adrian Assessing Office

**CITY OF ADRIAN
PROPERTY TAX LEVIES AND COLLECTIONS
LAST TEN YEARS**

EXHIBIT C-4

FISCAL YEAR	TAXES LEVIED FOR THE FISCAL YEAR	COLLECTED WITHIN THE FISCAL YEAR OF THE LEVY		COLLECTIONS IN SUBSEQUENT YEARS	TOTAL COLLECTIONS TO DATE	
		AMOUNT	PERCENT OF LEVY		AMOUNT	PERCENT OF LEVY
1997-98	4,787,379	4,505,009	94.10%	20,780	4,525,789	94.54%
1998-99	5,016,756	4,738,367	94.45%	4,893	4,743,260	94.55%
1999-00	4,962,176	4,822,163	97.18%	19,279	4,841,442	97.57%
2000-01	5,094,237	5,001,594	98.18%	599	5,002,193	98.19%
2001-02	5,210,649	5,129,617	98.44%	5,835	5,135,452	98.56%
2002-03	5,278,776	5,196,857	98.45%	4,113	5,200,970	98.53%
2003-04	6,078,050	5,948,936	97.88%	15,898	5,964,834	98.14%
2004-05	6,260,655	6,028,639	96.29%	42,487	6,071,126	96.97%
2005-06	6,558,928	6,237,099	95.09%	58,634	6,295,733	95.99%
2006-07	7,031,115	6,659,027	94.71%	210,360	6,869,387	97.70%

Source: City of Adrian Department of Treasury

CITY OF ADRIAN
RATIOS OF OUTSTANDING DEBT BY TYPE
LAST TEN FISCAL YEARS

EXHIBIT D-1

FISCAL YEAR	AUTO PARKING		FIRE STATION	STORM WATER		PARKS & RECREATION		TOTAL GENERAL		PARKS & RECREATION		WATER SYSTEM		WATER SYSTEM		SEWER SYSTEM		SEWER REVOLVING		DRINKING WATER		TOTAL PRIMARY GOVT.	PERCENT OF PERSONAL INCOME	PER CAPITA
	BONDS	BONDS		UTILITY	BONDS	INSTALLMENT PURCHASE AGREEMENT	OBLIGATION BONDS	CONTRACT LAND	BONDS #1	BONDS #2	REVENUE	REVENUE	BONDS	FUND LOAN	FUND LOAN	FUND LOAN	FUND LOAN	FUND LOAN						
1997-98	300,000	450,000		760,000	0	1,510,000	102,774	525,000	800,000	200,000	0	0	0	0	0	0	0	0	0	0	3,137,774	0.7%	142	
1998-99	265,000	300,000		695,000	0	1,260,000	68,351	350,000	775,000	0	0	0	0	0	0	0	0	0	0	0	2,453,351	0.5%	111	
1999-00	230,000	150,000		625,000	0	1,005,000	1,035,604	175,000	750,000	0	0	0	0	0	0	0	0	0	0	0	2,965,604	0.6%	134	
2000-01	190,000		0	550,000	962,309	1,702,309	0	0	700,000	0	0	0	0	0	0	0	0	0	0	0	2,402,309	0.5%	109	
2001-02	150,000		0	470,000	883,644	1,503,644	0	0	475,000	0	0	0	0	0	0	0	0	0	0	0	1,978,644	0.4%	89	
2002-03	100,000		0	385,000	2,000,391	2,485,391	0	0	250,000	0	0	0	0	0	0	0	0	0	0	0	10,532,948	2.2%	474	
2003-04	50,000		0	295,000	1,810,808	2,155,808	0	0	0	0	0	0	0	0	0	0	0	0	0	0	16,740,808	3.5%	754	
2004-05	0		0	200,000	1,612,360	1,812,360	0	0	0	0	0	0	0	0	0	0	0	0	0	0	15,827,360	3.3%	712	
2005-06	0		0	100,000	984,260	884,260	0	0	0	0	0	0	0	0	0	0	0	0	0	0	17,402,291	3.6%	783	
2006-07	0		0	0	771,188	771,188	0	0	0	0	0	0	0	0	0	0	0	0	0	0	22,102,717	4.6%	995	

CITY OF ADRIAN
RATIOS OF GENERAL BONDED DEBT OUTSTANDING
LAST TEN FISCAL YEARS

FISCAL YEAR	PARKS &				TOTAL GENERAL OBLIGATION BONDS	PERCENT OF TAXABLE VALUE OF PROPERTY*	PER CAPITA**
	AUTO PARKING BONDS	FIRE STATION BONDS	STORM WATER UTILITY BONDS	RECREATION INSTALLMENT PURCHASE AGREEMENT			
1997-98	300,000	450,000	760,000	0	1,510,000	0.48%	\$68.34
1998-99	265,000	300,000	695,000	0	1,260,000	0.39%	\$57.02
1999-00	230,000	150,000	625,000	0	1,005,000	0.29%	\$45.48
2000-01	190,000	0	550,000	962,309	1,702,309	0.48%	\$77.04
2001-02	150,000	0	470,000	883,644	1,503,644	0.41%	\$67.69
2002-03	100,000	0	385,000	2,000,391	2,485,391	0.65%	\$111.88
2003-04	50,000	0	295,000	1,810,808	2,155,808	0.54%	\$97.04
2004-05	0	0	200,000	1,612,360	1,812,360	0.44%	\$81.58
2005-06	0	0	100,000	884,260	984,260	0.23%	\$44.31
2006-07	0	0	0	771,188	771,188	0.17%	\$34.71

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

* See Exhibit C-1 for property value data.

** Population data can be found in Exhibit E-1.

CITY OF ADRIAN
DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
AS OF JUNE 30, 2007

	<u>DEBT OUTSTANDING</u>	<u>ESTIMATED PERCENTAGE APPLICABLE*</u>	<u>ESTIMATED SHARE OF OVERLAPPING DEBT</u>
Governmental Unit			
Debt Repaid with Property Taxes			
DIRECT DEBT:			
Installment Loan Purchase	\$771,188	100.00%	\$771,188
Net Direct Debt	<u>771,188</u>		<u>\$771,188</u>
OVERLAPPING DEBT:			
Adrian Public Schools	\$48,500,000	86.70%	\$42,049,500
Madison School District	1,770,000	13.30%	235,410
Lenawee County	9,070,000	14.00%	1,269,800
Net Overlapping Debt	<u>\$59,340,000</u>		<u>\$43,554,710</u>
Total Direct and Overlapping Debt	<u><u>\$60,111,188</u></u>		<u><u>\$44,325,898</u></u>

Sources: Taxable Value data used to estimate applicable percentages provided by the Lenawee County Equalization Department.
Debt outstanding provided by each governmental unit.

Note: Overlapping governments are those that coincide, at least in part, with the geographical boundaries of the City. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of Adrian. This process recognizes that, when considering the City's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident and, therefore, responsible for repaying the debt of each overlapping government.

* For debt repaid with property taxes, the percentage of overlapping debt applicable is estimated using taxable property values. Applicable percentages were estimated by determining the portion of another governmental unit's taxable value that is within the City's boundaries and dividing it by each unit's total taxable value.

**CITY OF ADRIAN
LEGAL DEBT MARGIN INFORMATION
LAST TEN FISCAL YEARS**

Exhibit D-4

Legal Debt Margin Calculation for Fiscal Year FY2004-05

Taxable Value	\$450,723,801
Debt Limit (10% of Taxable Value)	45,072,380
Debt Applicable to Limit:	
Installment Purchase Agreement	771,188
Storm Water Utility Bonds	0
Total Debt Applicable to Limit	771,188
Legal Debt Margin	<u>44,301,192</u>

	Fiscal Year									
	<u>FY1997-98</u>	<u>FY1998-99</u>	<u>FY1999-00</u>	<u>FY2000-01</u>	<u>FY2001-02</u>	<u>FY2002-03</u>	<u>FY2003-04</u>	<u>FY2004-05</u>	<u>FY2005-06</u>	<u>FY2006-07</u>
Debt Limit	\$29,712,390	\$31,252,376	\$32,606,373	\$34,115,819	\$35,798,649	\$37,054,750	\$38,356,011	\$41,029,451	\$42,690,402	\$45,072,380
Total Debt Applicable to Limit	1,510,000	1,260,000	1,005,000	1,702,309	1,503,644	2,485,391	2,155,808	1,812,360	884,260	771,188
Legal Debt Margin	<u>\$28,202,390</u>	<u>\$29,992,376</u>	<u>\$31,601,373</u>	<u>\$32,413,510</u>	<u>\$34,295,005</u>	<u>\$34,569,359</u>	<u>\$36,200,203</u>	<u>\$39,217,091</u>	<u>\$41,806,142</u>	<u>\$44,301,192</u>

Total Debt Applicable to Limit	5.08%	4.03%	3.08%	4.99%	4.20%	6.71%	5.62%	4.42%	2.07%	1.71%
as a Percentage of Debt Limit										

Note: The statutory debt limit of net bonded indebtedness incurred for all public purposes shall not, at any one time, exceed 10% of the State Equalized Valuation of taxable property in the City, except that this limit may be exceeded by 3/8th of one (1%) percent in the case of fire, flood, or other calamity. By law, the general obligation debt subject to the limitation may be offset by amounts set aside for repaying general obligation bonds. This limitation does not include bonds issued in anticipation of the payment of special assessments, nor bonds issued pursuant to court order for sewage or garbage disposal system.

The Michigan State Bond Act provides that the total debt in special assessment bonds for which the credit of the City is pledged shall not exceed 12% of the assessed valuation of taxable property of the City, nor shall such bonds be issued in any calendar year in excess of 3% of the assessed valuation of taxable property of the City unless voted.

Source: City Records

EXHIBIT D-5

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements. Operating expenses do not include interest, depreciation, or amortization expenses.

CITY OF ADRIAN **EXHIBIT E-1**
DEMOGRAPHIC AND ECONOMIC STATISTICS
LAST TEN FISCAL YEARS

FISCAL YEAR	POPULATION	PER CAPITA			SCHOOL ENROLLMENT	UNEMPLOYMENT RATES
		PERSONAL INCOME	PERSONAL INCOME	MEDIAN AGE		
1997-98	22,097	\$473,649,195	\$21,435	32.6	4,375	2.0%
1998-99	22,097	\$473,649,195	\$21,435	32.6	4,279	2.5%
1999-00	22,097	\$473,649,195	\$21,435	32.6	4,291	2.6%
2000-01	22,097	\$473,649,195	\$21,435	32.6	4,075	7.8%
2001-02	22,215	\$479,577,420	\$21,588	31.6	3,980	6.7%
2002-03	22,215	\$515,388,000	\$23,200	31.6	3,972	8.4%
2003-04	22,215	\$550,932,000	\$24,800	31.6	3,820	7.8%
2004-05	22,215	\$550,665,420	\$24,788	31.6	3,786	6.4%
2005-06	22,215	\$492,573,195	\$22,173	31.6	3,663	6.2%
2006-07	22,215	\$477,197,467	\$21,481	32.0	3,630	8.5%

Sources: Population, Personal Income and Median Age from U.S. Census Bureau; School Enrollments from
Adrian Board of Education; Unemployment Rates from Michigan Employment Security Commission.

EXHIBIT E-2

CITY OF ADRIAN
PRINCIPAL EMPLOYERS
CURRENT YEAR AND NINE YEARS AGO

	FY 2006-07			FY 1997-98*		
	<u>EMPLOYEES</u>	<u>RANK</u>	<u>PERCENTAGE OF TOTAL CITY EMPLOYMENT</u>	<u>EMPLOYEES</u>	<u>RANK</u>	<u>PERCENTAGE OF TOTAL CITY EMPLOYMENT</u>
<u>EMPLOYER</u>						
Lenawee Health Alliance	1,210	1	5.3%			
Lenawee County	575	2	2.5%			
Lenawee Intermediate School District	503	3	2.2%			
Adrian Public Schools	450	4	2.0%			
Siena Heights University	400	5	1.7%			
Adrian Steel Company	371	6	1.6%			
Delphi Automotive	300	7	1.3%			
Lowe's of Adrian	300	8	1.3%			
Adrian College	282	9	1.2%			
Meijer, Inc.	280	10	1.2%			
Lenawee Medical Care Facility	195	11	0.8%			
Inergy Automotive	179	12	0.8%			
City of Adrian	163	13	0.8%			
Cargotainer/Adrian Fabricators	163	14	0.7%			
	<u>5,371</u>		<u>23.4%</u>			
Total City Employment	23,000		100.0%			

Source: Lenawee County Chamber of Commerce

*Note: 1997-98 data not available; history will be built.

CITY OF ADRIAN
FULL-TIME CITY GOVERNMENT EMPLOYEES BY FUNCTION/PROGRAM
LAST TEN FISCAL YEARS

EXHIBIT F-1

<u>FUNCTION/PROGRAM</u>	<u>FY1997-98</u>	<u>FY1998-99</u>	<u>FY1999-2000</u>	<u>FY2000-01</u>	<u>FY2001-02</u>	<u>FY2002-03</u>	<u>FY2003-04</u>	<u>FY2004-05</u>	<u>FY2005-06</u>	<u>FY2006-07</u>
City Administrator	1.8	1.8	1.8	1.8	1.8	1.8	1.8	2.0	2.0	2.0
Finance Department	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.0	6.0	6.0
City Assessor	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.0	2.0	2.0
City Clerk	2.0	2.0	2.0	2.0	2.0	1.5	1.5	1.0	1.0	2.0
City Attorney	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	8.0
Human Resources	0.7	0.7	0.7	0.7	1.2	1.2	1.2	1.0	1.0	1.0
Cemetery	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.0	3.0	3.0
Community Development	3.0	3.0	4.0	5.0	4.5	10.0	10.0	10.0	10.0	4.0
Public Works/Engineer	15.5	15.5	15.5	14.5	14.5	10.5	10.5	13.0	13.0	13.0
Parks and Recreation	7.5	7.5	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0
Parks and Forestry	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0
Public Library	9.0	8.0	8.0	8.0	8.0	8.0	8.0	6.0	6.0	6.0
Police Department	33.5	36.5	39.0	36.0	36.0	36.0	36.0	36.0	37.0	37.0
Fire Department	20.0	20.0	20.0	19.0	19.0	20.0	20.0	21.0	19.0	19.0
Utilities Department	38.0	37.0	38.0	40.0	41.0	40.0	42.0	43.0	41.0	40.0
Auto Parking Fund	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	0.0
Information Technology	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.0	2.0
Total	156.5	157.5	162.5	160.5	161.5	162.5	164.5	165.0	165.0	165.0

Source: City Finance Department

Note: Inspection function transferred from Community Development to City Attorney in FY2006-07.

CITY OF ADRIAN
OPERATING INDICATORS BY FUNCTION/PROGRAM
LAST TEN FISCAL YEARS
EXHIBIT F-2

<u>FUNCTION/PROGRAM</u>	<u>FY1997-98</u>	<u>FY1998-99</u>	<u>FY1999-2000</u>	<u>FY2000-01</u>	<u>FY2001-02</u>	<u>FY2002-03</u>	<u>FY2003-04</u>	<u>FY2004-05</u>	<u>FY2005-06</u>	<u>FY2006-07</u>
Police Department										
Physical Arrests	780	783	609	789	986	1,010	1,034	1,604	1,779	1,662
Parking Violations	11,020	8,449	9,161	8,450	8,121	8,098	8,190	5,945	2,989	4,437
Traffic Violations	2,994	2,771	2,288	3,200	3,600	3,500	3,964	3,758	3,178	1,864
Fire Department										
Non-Medical Emergencies								481.0	486	461
EMS Rescue Responses								1668.0	1,725	1,736
Emergency Responses	1,975	2,151	2,220	2,163	2,243	1,970	2,156	2,149	2,211	2,197
Fires Extinguished	96	101	133	117	85	83	68	63	78	75
Refuse Collection										
Refuse Collected (tons)	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	6,865	6,586	6,074	6,000
Recyclables (tons)	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	762	875	841	763
Public Works										
Street Resurfacing (miles)	6.6	3.9	4.0	4.5	3.5	2.9	4.1	3.6	4.9	3.7
Cold/Hot Patch Repair (tons)	N.A.	N.A.	N.A.	N.A.	N.A.	236.1	214.7	212.8	164.0	124.5
Parks and Recreation										
Athletic Field Permits Issued	202	179	167	161	179	173	173	164	91	110
Program Participants	34,245	30,868	38,554	37,981	37,249	34,874	35,118	21,710	21,654	18,190
Public Library										
Materials in Collection	77,951	81,335	77,335	79,500	82,301	85,950	89,761	93,741	96,540	96,273
Circulation of Materials	73,571	67,684	73,191	70,619	75,106	77,181	79,313	81,504	75,013	76,895
Water										
New Connections	17	58	28	1	41	34	28	13	13	5
Water Main Breaks			12	28	33	30	15	16	25	32
Average Daily Consumption (thousands of gallons)	3,436	3,773	3,785	3,397	3,517	3,613	3,580	3,270	3,156	3,598
Peak Daily Consumption (thousands of gallons)	5,268	5,406	6,070	5,030	5,520	5,620	5,581	5,026	6,690	7,664
Waste Water										
Average Daily Sewage Treatment (thousands of gallons)	5,748	6,954	6,007	5,618	5,742	5,282	5,230	4,932	5,001	5,273
Transit										
Total Route Miles	143,330	150,683	153,349	149,986	161,731	159,491	156,934	162,777	146,413	144,291
Passengers	83,900	88,601	95,900	92,337	95,724	91,657	91,138	91,138	80,244	81,063

Note: 33% Fare incr. - July '05

Sources: Various Departments

EXHIBIT F-3

CITY OF ADRIAN
CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM
LAST TEN FISCAL YEARS

<u>FUNCTION/PROGRAM</u>	<u>FY1997-98</u>	<u>FY1998-99</u>	<u>FY1999-2000</u>	<u>FY2000-01</u>	<u>FY2001-02</u>	<u>FY2002-03</u>	<u>FY2003-04</u>	<u>FY2004-05</u>	<u>FY2005-06</u>	<u>FY2006-07</u>
Police Department										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol Vehicles	14	14	16	16	16	16	16	16	16	16
Motorcycles	0	0	2	2	4	5	2	2	2	3
Fire Department										
Stations	1	1	1	1	1	1	1	1	1	1
Emergency Vehicles	7	7	7	7	7	7	7	7	7	7
Hydrants (Public/Private)	527	538	559	559	559	633	707	781	855	930
Public Works										
Streets (miles)	43.5	43.5	43.5	43.5	43.5	43.5	43.5	43.5	43.5	45.9
Highways (miles)	40.2	40.2	40.2	40.2	40.2	40.2	40.2	40.2	40.2	27.1
Bridges	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0
Streetslights	874	874	874	875	875	874	874	874	874	875
Traffic Signals	26	26	26	26	26	26	26	26	26	25
Parking Spaces	814	814	814	814	814	814	814	814	814	814
Parks and Recreation										
Acreage	672	672	672	672	672	672	672	674	674	674
Playgrounds	5	6	6	6	6	6	6	6	6	6
Baseball Diamonds	10	10	10	10	10	10	10	10	10	10
Soccer Fields	0	0	0	0	5	5	5	5	5	5
Community Centers	1	1	1	1	1	1	1	1	1	1
Water										
Water Mains (miles)	90.20	90.20	91.20	91.20	91.20	91.20	93.00	93.00	93.00	136.00
Customers	6,615	6,651	6,693	6,609	6,473	6,631	6,652	6,652	6,652	6,652
Storage Capacity	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500
(thousands of gallons)										
Average Pumpage	3,200,000	3,300,000	3,600,000	3,600,000	3,600,000	3,600,000	3,600,000	3,600,000	3,600,000	3,600,000
(gallons/day)										
Waste Water										
Sanitary Sewers (miles)	80.42	80.42	80.42	80.42	80.42	80.42	80.42	80.42	80.42	83.26
Storm Sewers (miles)	50.15	50.15	50.15	50.15	50.15	50.15	50.15	50.15	50.15	50.15
Treatment Capacity	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000
(gallons/day)										
Transit										
Minibuses	6	6	6	6	6	7	7	7	7	7

Sources: Various Departments

August 7, 2007

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Honorable Mayor and
Members of the City Commission
City of Adrian, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Adrian, Michigan, as of and for the year ended June 30, 2007, which collectively comprise the City of Adrian, Michigan's basic financial statements and have issued our report thereon dated August 7, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the City of Adrian, Michigan's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Adrian's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Adrian's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Adrian's internal control.

August 7, 2007

To the Honorable Mayor and
Members of the City Commission
City of Adrian, Michigan

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the City of Adrian, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the City Commission, Departments of the State of Michigan, and federal awarding agencies and pass through entities and is not intended to be and should not be used by anyone other than these specified parties.

Robertson, Eaton & Owen, P.C.

August 7, 2007

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
MAJOR PROGRAMS AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
Members of the City Commission
City of Adrian, Michigan

COMPLIANCE

We have audited the compliance of the City of Adrian, Michigan with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. The City of Adrian, Michigan's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal programs is the responsibility of the City of Adrian, Michigan's management. Our responsibility is to express an opinion on the City of Adrian, Michigan's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Adrian, Michigan's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Adrian, Michigan's compliance with those requirements.

In our opinion, the City of Adrian, Michigan complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

August 7, 2007

To the Honorable Mayor and
Members of the City Commission
City of Adrian, Michigan

INTERNAL CONTROL OVER COMPLIANCE

The management of the City of Adrian, Michigan is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Adrian, Michigan's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal programs being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, the City Commission, Departments of the State of Michigan, and federal awarding agencies and pass through entities and is not intended to be and should not be used by anyone other than these specified parties.

Robertson, Eaton & Owen, P.C.

CITY OF ADRIAN, MICHIGAN

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
(AND RELATED STATE EXPENDITURES)**

For the Year Ended June 30, 2007

<u>Federal Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass Through Entity's Identifying Number</u>	<u>Program or Award Amount</u>	<u>Federal Expenditures</u>	<u>State Expenditure</u>
U.S. Department of Transportation					
USC Section 5311 Operating Assistance	20.509	MI-18-X039	Formula	\$ 22,777	\$
USC Section 5311 Operating Assistance	20.509	2002-0002-Z12	Formula	54,262	
USC Section 5309 Capital	20.500	98-0792/A7	52,000	20,555	5,140
USC Section 5309 Capital	20.500	MI-03-0215	2,646	566	142
USC Section 5309 Capital	20.500	2001-0850/A2	375,000	33,865	8,467
USC Section 5309 Capital	20.500	2000-0460/A4	392,519	1,280	320
USC Section 5311 Capital	20.509	MI-18-X038	16,000	11,517	
Federal Aid Highway Program –CMAQ	20.205	46400-82973	89,653	39,610	
U.S. Department of Agriculture – Forest Service					
Cooperative Forestry Assistance	10.664	EAB06-05	17,750	17,750	
U.S. Department of Justice					
Edward Byrne Memorial Formula Grant	16.579	ODCP 72256-1-06-BFI	7,500	7,500	
Edward Byrne State and Local Law Enforcement Assistance Grant	16.580	2005 DJBX0326	13,192	11,075	
U.S. Environmental Protection					
Brownfield Assessment and Cleanup	66.818	BF-96562701	400,000	15,989	
EPA Funds Passed Thru Michigan DEQ- Capitalization Grants For Clean Water State Revolving Funds	66.458	5238-01	795,743	340,181	
EPA Funds Passed Thru Michigan DEQ- Capitalization Grants For Clean Water State Revolving Funds	66.458	5239-01	3,246,556	1,757,801	
U.S. Department of Homeland Security					
Assistance to Firefighters	97.044	EMW-2005-FP-01528	9,840	9,840	
Assistance to Firefighters	97.044	EMW-2005-FG-08379	77,805	<u>6,480</u>	
Total Expenditures of Federal Awards				<u>\$ 2,351,048</u>	

(PAGE 1 OF 2)
CITY OF ADRIAN, MICHIGAN

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2007

SECTION I - SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS

Type of auditors' report issued:

Unqualified

Internal control over financial reporting:

* Material weakness(es) identified?

___ YES X NO

* Reportable condition(s) identified that
are not considered to be material
weaknesses?

___ YES X NONE REPORTED

Noncompliance material to financial
statements noted?

___ YES X NO

FEDERAL AWARDS

Internal control over major programs:

* Material weakness(es) identified?

___ YES X NO

* Reportable condition(s) identified
that are not considered to be
material weaknesses?

___ YES X NONE REPORTED

Type of auditors' report issued on compliance
for major program:

Unqualified

Any audit findings disclosed that are
required to be reported in accordance
with Section 510(a) of Circular A-133?

___ YES X NO

(PAGE 2 OF 2)
CITY OF ADRIAN, MICHIGAN

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2007

SECTION I - SUMMARY OF AUDITORS' RESULTS

IDENTIFICATION OF MAJOR PROGRAM:

<u>CFDA Number</u>	<u>Pass Through Entity Identifying Number</u>	<u>Name of Federal Program</u>
66.458	5238-01	State Revolving Funds
66.458	5239-01	State Revolving Funds

Dollar Threshold used to distinguish
between type A and type B programs:

\$ 300,000

Auditee qualified as low-risk auditee?

_____ YES X NO

SECTION II - FINANCIAL STATEMENT FINDINGS

NONE

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

NONE

**ROBERTSON
EATON
&
OWEN**

P.C.

August 7, 2007

Honorable Mayor and
Members of the City Commission
City of Adrian, Michigan

We appreciate the opportunity to conduct your audit this year. We are writing to you as we complete the audit to communicate any control deficiencies we identified during the audit and whether these deficiencies (if any) are determined to be significant deficiencies or material weaknesses.

In planning and performing our audit of the financial statements of the City of Adrian, Michigan, for period ending June 30, 2007, we applied generally accepted auditing standards (GAAS) as we considered your internal control over financial reporting as a basis for designing our auditing procedures. We did this for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of your internal controls. Accordingly, as a part of your audit, we are not expressing an opinion on the effectiveness of your internal control.

Our consideration of internal control was for the limited purpose of conducting your organization's audit and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. It is important to note that control deficiencies are not necessarily problems you will choose to address, however, they do represent potential risks. Our job as your auditors is to ensure that you understand where you have these deficiencies or weaknesses so that you can make informed business decisions on how best to respond to these risks.

Significant Deficiencies

A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects your entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of your financial statements that is more than inconsequential will not be prevented or detected by your internal control. During our audit we found no significant deficiencies in internal control.

Materials Weaknesses

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by your internal control. During our audit we found no material weaknesses.

However, other matters concerning the City and its operation are reported to you in the remainder of this report.

System for locating grant documents

In the past year, the City has started to accumulate grant information in one location. That location being centralized computer files. Although this procedure has been started, it may take some time before it is fully implemented.

Possibly, an easier approach would be to maintain an up-to-date listing of all grants currently being administered by the City and have this listing kept by the City's Finance Department. Each month, all Departments of the City would submit a report to the Finance Department showing all grants that the

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Honorable Mayor and
Members of the City Commission
City of Adrian, Michigan

respective Departments are currently handling, and provide information on the status of each grant and who is in charge of the documents for the grant.

Pension Plan

An update on the City's defined benefit pension plan through Municipal Employees Retirement System of Michigan (MERS) based on the actuarial evaluation as of December 31, 2006. The unfunded actuarial accrued liability at December 31, 2006 was \$5,872,651; compared to \$4,835,802 at December 31, 2005.

The actual City's contribution to the pension plan was \$816,109 for fiscal year 2006-07.

Capital Assets – Dial-A-Ride Transportation System

If the City ever has to provide local funding for the purchase or construction of capital assets for the Dial-A-Ride Transportation System, the local share of the capital asset cost can be reimbursed through State funding (ACT 51) and Federal funding (Section 5311). The reimbursement would be based on the depreciation expense taken each year.

The one requirement needed to receive reimbursement is that the Michigan Department of Transportation has to approve the useful lives of the capital assets.

Financial Condition

The City continues to maintain a good financial position. The General Fund's fund balance was \$6,123,518 at June 30, 2007. And, the unreserved portion of this balance was \$1,304,717.

Due to the amount of debt in the Wastewater System Fund and the Water System Fund, it is prudent to closely monitor utility rates, usage, and ongoing operation costs of these funds.

This written communication is intended solely for the information and use by City management, those charged with your organization's governance, others you deem appropriate within your organization, and any governmental authorities you need to share this information.

Again, we appreciate the assistance provided by the City during our audit.

Robertson, Eaton & Owen, P.C.